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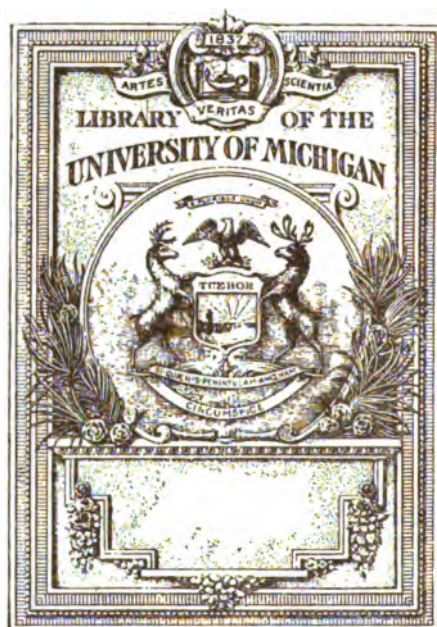
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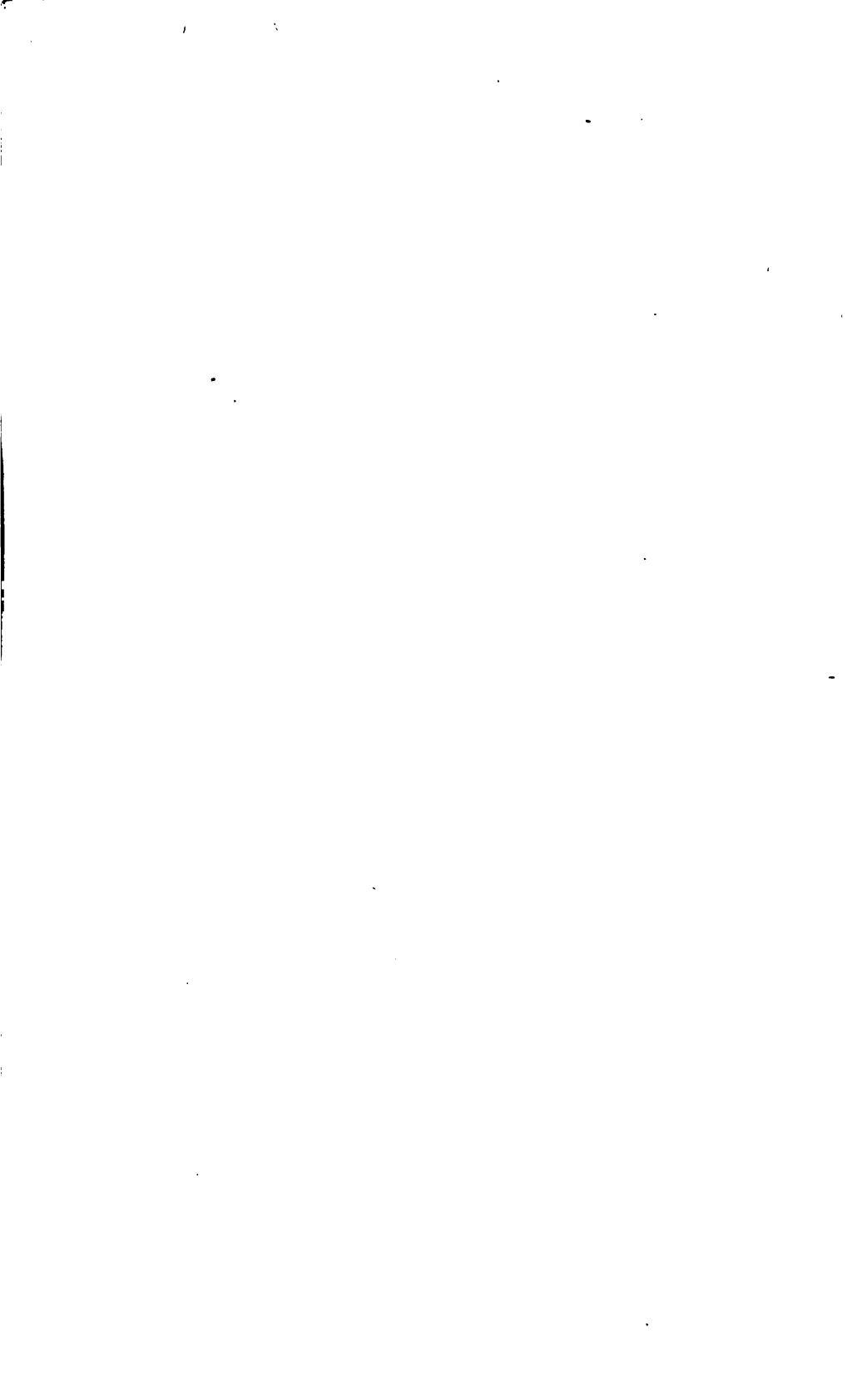
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COMMISSION LEAFLETS

(NOS. 121-126, INCLUSIVE)

CONTAINING

SELECTED COMMISSION DECISIONS

JANUARY—JUNE, 1922

COMPILED BY THE
AMERICAN TELEPHONE AND TELEGRAPH COMPANY
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American Telephone and Telegraph Company
Legal Department
195 Broadway, New York, N. Y.

COMMISSION LEAFLET No. 121

**Recent Commission Orders, Rulings and Decisions
from the following States:**

**Arizona
California
Illinois
Indiana
Kansas
Minnesota
Missouri**

**Nebraska
New Jersey
New York
Ohio
Oklahoma
South Dakota
Utah**

**Wisconsin
and from
Ontario**

JANUARY 1, 1922



ARIZONA.

Corporation Commission.

In re APPLICATION OF THE MOUNTAIN STATES TELEPHONE
AND TELEGRAPH COMPANY TO CHANGE ITS TOLL RATES.

Docket No. 1264-E-96 — Decision No. 1396.

Decided November 7, 1921.

Toll Rates Adjusted with Increase.

OPINION AND ORDER.

Hearings were had before the Commission, all three members sitting at Phoenix, Tucson, Nogales, Douglas and Tombstone. The company appeared by *Messrs. Chalmers, Stahl, Fennemore and Longan, W. P. Geary and H. D. McVay*. *Ben Ferguson* represented the Commission. After evidence was introduced, the matter was taken under advisement.

This is an application of The Mountain States Telephone and Telegraph Company seeking the approval of and making effective a proposed schedule of rates for long distance service within the State of Arizona, filed with this Commission some months ago. The long distance rate schedule alone is involved, and that only in part, primarily for the purpose of removing discrimination. An increase in exchange rates is not sought. The same schedule of rates is in effect in the States of Montana, Wyoming, Texas and New Mexico, and for all interstate toll or long distance business of the company. Primarily, the purpose of the company in filing the schedule of rates is to have long distance rates in Arizona correspond with those of the other states in its territory, thereby saving expense and simplifying the administration of the toll business.

A study has been made and evidence has been introduced to determine whether or not the revenues derived in the State of Arizona were adequate and sufficient to meet the requirements of the company's affairs and business, and

further to determine whether the added revenue incident to the institution of said proposed toll schedule was warranted under the facts. That study and examination reveals that the institution of the toll schedule, had it been in effect in Arizona in the year 1921, would have produced an estimated additional toll or long distance revenue of approximately \$15,000. However, the investigation shows that the deficits which the company has sustained in the State of Arizona for a number of years past are as follows:

1915.....	\$63,001 08
1916.....	35,295 42
1917.....	45,020 49
1918.....	112,130 53
1919.....	74,996 69
1920.....	27,508 99
1921 (estimated)	56,040 00

Eliminating the estimated deficit for 1921, the total thus far aggregated over the years quoted is \$357,953.20, this sum being far less than that adjudged competent to constitute a reasonable rate of return upon any investment.

The evidence likewise disclosed that there has been a very marked increase in taxes assessed against the company in years past, said taxes for the various years from 1916 being as follows:

FRANCHISE, OCCUPATION, AND GENERAL TAXES, 1916-1920, INCLUSIVE.	
1916.....	\$31,363 00
1917.....	47,064 00
1918.....	65,480 00
1919.....	79,197 00
1920.....	101,873 00

We have not at hand the exact figures for the taxes of 1921, but it is well known that there has been a great increase over the year 1920.

From the foregoing it is apparent that the slight increase in revenue which the company would derive in case of the approval of the proposed long distance schedule can in no

wise be said to be any substantial increase in the company's revenues, nor can it be said to go any considerable distance in reducing the deficits which the company is now sustaining in the State of Arizona.

The evidence further discloses that the company has pioneered in the State of Arizona ever since its entrance into the State, and has consistently and constantly increased its investment, except during the period of government control, when, to meet the exigencies of the World War, extensions were prohibited by the federal authorities. The capital investment of the company during the period from 1916 to 1920, inclusive, has increased from \$1,500,000 to over \$3,000,000, and per se is direct evidence of the capital requirements for a public utility of this character, and evidences conservative estimates of what is needed for future growth. War requirements and federal control during the years 1918 and 1919 most seriously retarded the construction program of the applicant, congested its facilities and created a condition that could only be relieved through additional plant capacity. Already the company has undertaken the enlargement of its buildings and plant capacity in Phoenix and elsewhere, and included in such plant enlargement at Phoenix, space will be provided for a state auditing department, which will be installed upon the completion of such construction. This department will employ some 30 to 40 employees.

The Commission has ascertained that new capital requirements, meaning new construction, some of which is already started, as in the city of Phoenix, and the balance of which must be installed during the coming year, will, as shown by the budget of the company for the year 1922, exceed \$400,000. This means an added expense for taxes, more earnings will be required, more expense will be incurred. While the Commission in determining the questions involved has not in this case taken into consideration in arriving at a rate base, contemplated investment, nevertheless where, as here, the work is already begun, the Commission cannot ignore the fact that the work has been

undertaken and that it means an investment in the amounts as above stated. This position is sustained by the cases of *Peoples Power Company*, before the Illinois Public Utilities Commission, P. U. R. A. 1920-E, pp. 710-726, and *Arkansas Light and Power Company*, before the Arkansas Corporation Commission, P. U. R. A. 1921-A, pp. 461-466.

The proposed schedule for long distance service is, as above stated, sought to be approved primarily for the purpose of preventing discrimination in the toll charges between the respective states in which the company operates, and is in harmony with charges made for similar service throughout the country. When the present schedule of long distance rates was put into effect in the State of Arizona by the Postmaster General it resulted, by reason of the new classification made by the Postmaster General, in a reduction of the long distance or toll rates then existing in the State of Arizona. The people of Arizona during the period from 1919 to date have enjoyed a schedule of toll rates even lower than that which existed prior to the war. The proposed schedule, when we compare the present conditions with those of the past, is in no respect higher than the schedule in effect in pre-war times.

We reiterate that the proposed change in no wise affects purely exchange usage of telephone facilities, the scope of these proceedings going to a modification of long distance or toll rates solely. Of such toll calls, 64.8 per cent. of business transacted will not be affected in any way; 16.7 per cent. will be increased the sum of 5 cents; 6.9 per cent. will be increased 10 cents; 5.9 per cent. will be increased the sum of 15 cents; 3.8 per cent. will be increased the sum of 20 cents; 1.2 per cent. will be increased the sum of 25 cents and .7 per cent. will be increased from 30 to 40 cents. These percentages have been obtained in the usual manner of making such studies for administrative purposes.

It has been stated that reports filed by the company with the Tax Commission showed earning to the company of 7.93 per cent. upon its invested capital. The evidence of

a representative of the Tax Commission disclosed that the numerals, "7.93," found upon the documents on file in the Tax Commission, were placed there by a representative of the Tax Commission, and in no wise related to the rate of return to the company, but were figures which showed the percentages of increase in the gross revenue for one period over another.

In consideration of all facts submitted, we are of the opinion that the petition of the applicant for a change in its present toll rates in the State of Arizona should be granted, and to that end,

It is, therefore, ordered: 1. That the prayer of the applicant be granted, its schedule of toll rates approved and the toll rates to be hereafter charged by the applicant company in the State of Arizona shall be as follows, to-wit:

Basis of measurement, air line to 40 miles, over 40 miles block:

From 0 to 10 miles, station-to-station.....	\$0 10
From 10 miles to 70 miles, station-to-station, each 6 miles..	05
Over 70 miles, station-to-station, each 7 miles.....	05

The standard person-to-person, appointment, messenger and other classifications as now in effect apply to the foregoing station-to-station day rates and also standard evening and night rates, all in the same proportion as they now bear to rates now in effect.

2. That the applicant prepare and file with this Commission within ten days from the date hereof, a schedule of rates conforming to the terms of this order, and in addition thereto such charts and other documents as are necessary for a full interpretation of said rates, of the same character as those heretofore on file but modified in conformity with the provisions of this order.

3. That the schedule of rates herein approved shall be effective from and after midnight of the twentieth day, of November, 1921.

Dated at Phoenix, Arizona, this seventh day of November, 1921.

CALIFORNIA.

Railroad Commission.

In re APPLICATION OF THE McFARLAND TELEPHONE COMPANY
FOR AUTHORITY TO INCREASE RATES FOR TELEPHONE
SERVICE.

Application No. 6170 — Decision No. 9039.

Decided June 3, 1921.

**Increase in Rates Authorized — Reserve for Depreciation Ordered Set
Aside on a Monthly Basis.**

OPINION.

The McFarland Telephone Company, hereinafter referred to as the company, in Application No. 6170, asks the Commission's authority to increase rates for telephone service, alleging that the income from the present rates is insufficient to pay operating expenses.

The company filed with its application a statement of the monthly revenue and expenses and an inventory and appraisal of its property. The revenue and expenses as shown in the exhibit are based on estimates rather than upon records kept by the company.

The rates which the company has on file with the Commission at present are as follows:

<i>Classification</i>	<i>Business</i>		<i>Residence</i>	
	<i>Wall</i>	<i>Desk</i>	<i>Wall</i>	<i>Desk</i>
Main line	\$2 50	\$2 75	\$2 00	\$2 25
Two-party line	2 00	2 25	1 75	2 00
Four-party line	1 75	2 00	1 50	1 75
Suburban*	1 75	2 00	1 50	1 75
Farmer line*	50	50	25	25
Extension bell	25	....	25	....

* Farmer line rates are for a minimum of 5 subscribers per line. Suburban rate is for a minimum of 4 subscribers for the first 3 miles of line required from the central office and a minimum of 5 subscribers per line for the first 5 miles of line.

* MILEAGE CHARGES.

	<i>Per Month</i>
Main line telephone, per quarter mile or fraction thereof....	\$0 50
Two-party line telephone, per quarter mile or fraction thereof	35
Four-party line telephone, per quarter mile or fraction thereof	25

* The mileage charges apply only for telephones of these classifications which are located outside of the primary rate area. The mileage shall be the air line distance from the subscriber's station to the primary rate area.

The primary rate area is now defined by a circle drawn with a three-quarter mile radius and with its center, or origin, at the central office.

An investigation of the subscriber's ledger of the company revealed the fact that it had not been charging the rates filed with the Commission, in that subscribers were given the choice between a wall and a desk telephone at the lower rates, this course resulting in loss of revenue. The company was acting within its rights in this matter but, inasmuch as it desires more revenue, it should have applied the rates authorized by this Commission. The ledger also showed that the company was charging discriminatory rates in a few cases, and collecting a rate for switching service which had not been authorized by the Commission. These two matters should be corrected.

A hearing was held in McFarland upon above application by Examiner Westover. An independent inventory and appraisal of the company's property was made by the Commission's engineers and presented at the hearing. From an analysis of these appraisals submitted by the company and by our engineers, we are of the opinion that a fair valuation of this property for rate-making purposes will be approximately \$6,500.

The records kept by the company of its revenues and expenses were so incomplete that it was impossible to determine from them either the income or the expendi-

tures during the past year. We have therefore used estimated revenue and expenses in this instance.

A careful estimate of the operating expenses, uncollectable revenue, taxes and depreciation amounts to \$2,550 for the coming year. Under the present rates, assuming a 5 per cent. increase in business, the company would receive a total revenue of approximately \$2,450. It is apparent, therefore, that the company is entitled to an increase in revenue in order that it may pay even its operating expenses.

The company may reasonably expect during the coming year an estimated revenue of approximately \$2,750 under the proposed rate structure. With the estimated expenses for the same period amounting to \$2,550, the company will have remaining only \$200 as a return upon its investment. This is a return of 8 per cent. on \$2,500 while the rate base, as stated above, is \$6,500.

The above condition is caused by the fact that the company is serving a territory which is in the development stage. During the last five years the number of stations served by it has increased over 100 per cent. At the present time, however, the number of stations is so small (they have 72 stations) that a rate structure which would give a reasonable return upon the investment would be excessive and defeat the very purpose for which it was granted.

Included in the estimated expenses for the coming year is an item of \$288 which shall be set aside in a fund for the purpose of taking care of depreciation which will take place subsequent to the time this fund is set aside. This amount shall be added to the fund annually and the fund itself regulated as directed in the order.

C. L. 121]

We recommend that the company shall offer the following classes of service and authorize the following rates:

<i>Classification</i>	<i>Per Month</i>	
	<i>Business</i>	<i>Residence</i>
Main line, wall.....	\$2 50	\$2 00
Two-party line, wall.....	2 00	1 75
Four-party line, wall.....	1 75	1 50
Suburban line, wall.....	2 25	2 00
Extensions	1 00	1 00
Extension bells	25	25
Farmers' lines (per annum).....	6 00	3 00

Desk telephones are 25 cents additional per month on all classes of service except extensions and farmers' lines.

The above main line, two- and four-party rates apply only within the primary rate area which shall be defined as the territory within one-half mile, air line, from the central office of the company.

MILEAGE CHARGES.

A mileage charge, based upon the shortest air line distance from the subscribers' station to the primary rate area, may be made for the following classes of service:

	<i>Per Month</i>
Main line, per quarter mile or fraction thereof.....	\$0 50
Two-party line, per quarter mile or fraction thereof.....	35
Four-party line, per quarter mile or fraction thereof.....	25

Rates for miscellaneous service not included in the above table are to be filed with the Commission subject to its approval.

All services, rules and regulations not covered in this opinion shall remain in effect as provided for in the Commission's Decision No. 2879, Case No. 683,* decided November 5, 1915, and as modified by Decision No. 8146, Application No. 5767,† decided September 24, 1920.

We recommend the following form of order:

ORDER.

The McFarland Telephone Company, having filed with the Commission its application for an increase in rates,

* See Commission Leaflet No. 49, p. 333.

† See Commission Leaflet No. 107, p. 431.

a hearing having been held, the matter having been submitted and the Commission, basing its conclusions on the foregoing opinion, finding as a fact that the rates authorized and the classes of service prescribed in this order are just and reasonable;

It is hereby ordered, That the applicant is authorized to establish and file with the Commission within thirty days from the date of this order, a schedule of rates and services as outlined in the foregoing opinion. On approval by the Commission of the schedule so filed, applicant is authorized to put these rates into effect subject to the following conditions:

(a) Adequate and efficient telephone service must be rendered at all times for all classes of service.

(b) Applicant shall set aside in the depreciation fund the sum of \$288 per annum in installments of \$24.00 per month for the purpose of taking care of such renewals and replacements of property as shall be covered by the fund.

Applicant shall file with the Commission within thirty days of the date of this order, its suggestions for rules governing the functions and use of the depreciation fund and these recommendations thereafter shall go into effect as approved or modified by the Commission.

(c) The books and records of the company shall be kept in conformity with the uniform classification of accounts for telephone companies as prescribed by this Commission and made effective January 1, 1914.

The foregoing opinion and order are hereby approved and ordered filed as the opinion and order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this third day of June, 1921.

In re APPLICATION OF MRS. G. GUERRA, OWNER OF CAMBRIA TELEPHONE COMPANY, FOR PERMISSION TO TOTALLY DISCONTINUE ALL SERVICE AND TO ENTIRELY WITHDRAW FROM PUBLIC SERVICE IN ALL TERRITORIES SERVED BY SUCH COMPANY.

Application No. 6016 — Decision No. 9100.

Decided June 13, 1921.

Application to Discontinue Public Service Denied.

OPINION.

Mrs. G. Guerra, petitioner in this proceeding, is sole owner of a small telephone system operating as a public utility in and in the vicinity of the town of Cambria, San Luis Obispo County, and serving at the time of this proceeding about 95 patrons. Connection with the long distance toll lines of The Pacific Telephone and Telegraph Company is maintained to provide public service to and from outside points.

The petition sets forth that the expense of operation far exceeds the revenue, that patrons threaten to order their telephones taken cut if an increase in rates is attempted, that it is difficult to employ necessary labor for maintenance and operation and that petitioner is unable to secure a purchaser to take over the operation of the system. As originally filed, the petition asks for an order permitting petitioner to withdraw entirely from public service.

A hearing was held before Examiner Westover at Cambria. At this hearing, counsel for petitioner asked for and was granted permission to amend the petition by asking, in the event of a denial, that the rates be increased sufficiently to justify the service.

Cambria is located about 37 miles northwest of San Luis Obispo and about 15 miles from Cayucos, the nearest town. The only present available wire communication with the outside world is by means of petitioner's service and its toll connection hereinbefore referred to. About 20

of petitioner's patrons appeared in protest against withdrawal of service, and it appears that this protest is general. None of those so protesting have protested to the Commission against the payment of sufficient rates to justify continuance of service and all of those appearing at the hearing have signified their willingness to pay an increase if necessary. Petitioner has also expressed willingness to continue if given adequate rates.

Petitioner's claim that the expense of operation far exceeds the revenue is not fully supported by the evidence. It was shown, however, that complete records of actual expenditures have not been kept and it is apparent that the maintenance of the property has been neglected. It is probable, therefore, that if the system were properly maintained the expenses of operation would at least equal, if not exceed, present revenues.

It is our opinion that public convenience and necessity require continuance of telephone service within the territory now served by petitioner's lines. It is obvious, of course, that the owner of this system or anyone else whose duty it is or might be to provide service is entitled to such revenues as may be necessary to make its continuance possible. The Commission is not passing upon a question of rates in this proceeding, but if the present rates are inadequate, petitioner should at once file with the Commission an application for authority to increase them, whereupon the Commission, after investigation, will authorize the establishment of such rates as it may find to be just and reasonable.

ORDER.

Mrs. G. Guerra, owner of the Cambria Telephone Company serving the town of Cambria, San Luis Obispo County, and vicinity, having applied to the Railroad Commission for authority to totally discontinue all service and entirely withdraw from public service, a public hearing having been held, the Commission being fully apprised, and it appearing to the Commission, as set forth in the

opinion preceding this order, that public convenience and necessity require the continuance of said service and that this application should be denied;

It is hereby ordered, That the application herein be, and it is hereby, denied.

Dated at San Francisco, California, this thirteenth day of June, 1921.

In re APPLICATION OF THE COLORADO RIVER TELEPHONE COMPANY FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY TO CONSTRUCT, MAINTAIN AND OPERATE A TELEPHONE AND TELEGRAPH LINE FROM BLYTHE TO NILAND AND FOR AN ORDER AUTHORIZING THE ISSUANCE AND SALE OF STOCK AND NOTES.

Application Nos. 5375 and 6083 — Decision No. 9105.

Decided June 14, 1921.

Permission to Execute Deed of Trust Granted.

FIRST SUPPLEMENTAL ORDER.

The Railroad Commission, by Decision No. 8921,* dated May 3, 1921, having authorized Colorado River Telephone Company, among other things, to execute \$20,000, face value, of five-year 7 per cent. secured notes, subject, among others, to the condition that none of the \$20,000 of notes be issued until the Commission had authorized the execution of a deed of trust securing their payment, and Colorado River Telephone Company having filed with the Commission on June 9, 1921, a copy of its proposed deed of trust securing the payment of \$20,000 of five-year 7 per cent. notes;

And the Commission being of the opinion that applicant should be permitted to execute a deed of trust substantially in the same form as that filed;

* See Commission Leaflet No. 115, p. 1710.

It is hereby ordered, That Colorado River Telephone Company be, and it is hereby, authorized to execute a deed of trust substantially in the same form as the deed of trust filed with the Commission in this proceeding on June 9, 1921; provided

That the authority herein granted to execute a deed of trust is for the purpose of this proceeding only and is granted insofar as this Commission has jurisdiction under the terms of the Public Utilities Act, and is not intended as an approval of said deed of trust as to such other legal requirements to which said deed of trust may be subject.

It is hereby further ordered, That the order in Decision No. 8921,* dated May 3, 1921, shall remain in full force and effect, except as modified by this first supplemental order.

Dated at San Francisco, California, this fourteenth day of June, 1921.

In re APPLICATION OF M. C. AND C. W. LANGSTAFF FOR PERMISSION TO INCREASE RATES.

Application No. 5633 — Decision No. 9150.

Decided June 24, 1921.

**Subscribers Not Required to Pay Undue Costs on Unfortunate Investment — Subscribers Taking Service for Part of Year Only
Required to Pay Installation Charge — Increase
in Rates Authorized — Installation
Charges Established.**

OPINION.

The applicants own and conduct a telephone exchange in Forest Hill, Placer County, and vicinity, and furnish toll connections for its subscribers with the lines of The Pacific Telephone and Telegraph Company. There were thirty

* See Commission Leaflet No. 115, p. 1710.

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subscribers' stations on this system on August 1, 1920. The rates in effect at present are as follows:

	<i>Per Month</i>
Party-line service, wall sets.....	\$1 50
Party-line service, desk sets.....	2 00
Inside or outside extensions.....	1 00
	<i>Per Year</i>
Farmer-line service	\$3 00

Applicants requested in their application that the following rates be established:

<i>Business:</i>	<i>Per Month</i>
Party-line, wall	\$2 50
Party-line, desk	3 00
<i>Residence:</i>	
Party-line, wall	2 00
Party-line, desk	2 50
Inside or outside extensions.....	1 50
	<i>Per Year</i>
Farmer lines	\$4 00

This increase was asked on account of the increase in labor, supplies and material, and the allegation that the present income did not provide a return on the investment.

A public hearing was held on the application by Examiner Satterwhite. At this hearing applicants stated that they desired to modify their application; they desired to leave the fixing of the increases to the judgment of the Commission, rather than to ask for any specific rates.

An engineer of the Commission made an inspection of the plant and prepared and offered, as an exhibit, an inventory and appraisal as of July 31, 1920. This appraisal shows a reproduction cost on an historical basis of \$2,855. The original cost of this property is not available. An examination of the applicants' records of operating revenue and expenses was made for the period from August 1, 1919, to July 31, 1920. Gross revenue was found to have been \$720.94; total expenses, \$697.70, nothing being included for depreciation of plant. This resulted in a net income of \$23.24. Since this time the salary of the

operator has been increased. An estimate of all expenses properly chargeable, including operator's present salary, and allowance as salary for the actual time devoted to the maintenance of the plant by the manager and an allowance for depreciation, is the sum of \$1,266. We estimate that the rates hereinafter authorized will not quite provide this sum, nor will any interest on investment be earned.

It is our opinion that the applicants should seek to further increase their revenue by securing additional subscribers rather than by obtaining any further increases in rates beyond those provided in the attached order. The Commission desires, if possible, to fix rates which will provide a fair return upon the investment in addition to the cost of operation and maintenance. This utility has been steadily losing its subscribers. It had 54 subscribers' stations in 1915, while on August 1, 1920, it had 30. Were this process to continue, the point would be reached where the remaining subscribers would have to pay exorbitant and prohibitive rates in order to provide all the cost of operation and maintenance plus a return upon the investment. It would appear, therefore, that the applicants have made an unfortunate investment, and the subscribers can not be expected to pay undue operating costs arising from this cause.

The rates provided vary but slightly from those asked for by applicants. The scale of rates provided is a more just apportionment of the cost to the different classes of service furnished. The total revenue will be somewhat greater under these rates than under those asked by applicants.

In estimating the amount of revenue to be expected, we have taken into account the fact that a few of the subscribers take service for a part of each year only. These consist of certain mines, remote from the central office. This state of affairs means a loss of revenue to the applicants from idle equipment. Applicants are put to the further expense, in these cases, of disconnecting and reconnecting the services each year.

Applicants are entitled to make a fixed charge for installing instruments, and thereby defray the cost of such installations in the most equitable way. The Commission's Decision No. 8146 in Application No. 5767,* rendered September 24, 1920, gave permission to any telephone utility to file within thirty days a rule fixing the following charges:

Installation of individual or party line service, each station..	\$3 50
Installation of each extension station.....	1 50
Installation of service by use of instrumentalities already in place on subscriber's premises, each station.....	1 50

The time for filing such a rule has expired, but in view of the unusual conditions obtaining herein, it is our opinion that this rule should be put into effect on the applicants' system.

The rates contained in the order contemplate the maintenance, as at present, by the applicants, of all lines in which ownership is claimed and which, in general, and according to the testimony, extend from three to five miles from the central office. There are certain lines extending further into the mountains as continuations of the applicants' lines, principally those serving the mines, above referred to. To maintain these lines would place an abnormal and unreasonable burden upon the applicants. These extensions were built by former subscribers, some of whom have now departed and apparently relinquished their title to the lines. Applicants do not claim the title to these extensions.

ORDER.

M. C. and C. W. Langstaff, having filed an application with the Railroad Commission for authority to increase rates for service rendered at the applicants' exchange known as the Forest Hill telephone exchange, Forest Hill, Placer County, California, and a public hearing on the said application having been held, it is hereby found that the rates heretofore charged for telephone service by

* See Commission Leaflet No. 107, p. 431.

said applicants are unjust and inadequate. The rates hereinafter provided are found to be just and reasonable.

Basing its conclusion herein upon said finding and upon the facts set forth in the opinion preceding this order,

It is hereby ordered by the Railroad Commission, That said M. C. and C. W. Langstaff be, and they are hereby, authorized to file with the Railroad Commission, within thirty days from the date of this order, and thereafter to charge and collect rates in accordance with the following schedule:

<i>Class of Service</i>	<i>Rate Per Month</i>
Business service, four-party, wall.....	\$2 25
Business service, suburban, wall.....	2 50
Residence service, four-party, wall.....	2 00
Residence service, suburban, wall.....	2 25
Farmer line service, residence (per year).....	3 00
Farmer line service, business (per year).....	6 00
Extension, wall or desk, inside.....	1 00
Extension, wall or desk, outside.....	1 50
Desk telephones, per month, 25 cents extra except for extensions and farmer line service.	

It is hereby further ordered by the Railroad Commission, That M. C. and C. W. Langstaff be, and they are hereby, authorized to file with the Railroad Commission within thirty days and put into effect the rule fixing charges for installation of service as set forth in the preceding opinion.

The authority herein granted is subject to the condition that adequate and efficient telephone service shall be provided.

Dated at San Francisco, California, this twenty-fourth day of June, 1921.

In re INVESTIGATION INTO ALL THE RATES, CHARGES, RULES
AND REGULATIONS OF THE WESTERN UNION TELEGRAPH
COMPANY.

Case No. 1355 — Decision No. 9180.

Decided June 29, 1921.

**Present Rates Found Reasonable, Continued in Effect and Case
Dismissed.**

OPINION.

The Western Union Telegraph Company, having been under the exclusive jurisdiction and control, both as to rates and service and all other phases of operation, of the Postmaster General of the United States, acting for and on behalf of the President, from August 1, 1918, to August 1, 1919, and it having during the time of such control increased the rates theretofore in effect for service rendered by it between points within the State of California, under the direction of the Postmaster General; and the federal enactment authorizing the release of telegraph and telephone systems from federal control at midnight, July 31, 1919, having provided for the continuance of all of the rates established during such control for a period not to exceed four months from the effective date of the Act unless sooner modified or changed by the public authorities having jurisdiction thereof, the Railroad Commission on August 1, 1919, issued its General Order No. 57 * continuing in effect the rates which were established during federal control until changed by the Commission in a proceeding at the time instituted on its own initiative to determine the reasonableness thereof. It is this proceeding, known as Case No. 1355, that is now before the Commission for determination.

Public hearings were held in San Francisco on September 16, 1919, and October 18, 1920, and the matter submitted on the latter date, permission to submit additional

* See Commission Leaflet No. 94, p. 1157.

evidence being allowed. This additional evidence relating to investment and operation has been submitted and the case is now ready for decision.

The Western Union Telegraph Company is engaged in a general commercial telegraph business throughout the United States and the increased rates which were made effective in California during federal control were those which were made uniformly effective throughout the United States.

The business of The Western Union Telegraph Company within California is both interstate and intrastate in character. All of its facilities for conducting its business, its plant and property, and its working forces, are subject to both, but only a portion of its revenues and expenses arises directly from its intrastate business. The amount of its investment in physical plant and property devoted to intrastate as distinguished from interstate service, and the amount of revenues and expenses arising therefrom and which it is necessary to consider in a determination of what constitutes reasonable rates in this case, can be determined only by apportionment to interstate and intrastate service.

At the hearing of October 18, the company filed various exhibits which include a statement of its investment in plant within California, and statements of its revenues and operating expenses, both intrastate and interstate, together with a detailed statement of the methods by which its intrastate revenues and operating expenses are apportioned. The investment figures presented are based upon its appraisal at the reproduction cost new, of its entire physical property within the State, as of June 30, 1919. These figures show only the total appraisal amounts of the various items of property without inventory quantities and unit costs, but upon the request of the Commission's engineers the items upon which they are based were submitted in detail for their examination subsequent to the hearing. The revenue and expense statements presented

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at the hearing were for the year 1919. Since that time similar statements for the year 1920 have been presented.

It is claimed by the company that the rate increase authorized during the period of federal control was granted to offset increases in operating costs which had been incurred but that since the increase was made effective on April 1, 1919, further increases in wages have absorbed the rate increase and urged that it has not profited from the increase in rates. This claim is supported by the evidence.

In comparison with appraisals of other properties made by other utilities and by the engineers of the Commission, as far as those properties are comparable with the physical plant of The Western Union Telegraph Company, the unit costs of some of the major items of plant upon which the company's valuation is based appear to be high. If, as it appears from the company's operating statements, however, the net income from intrastate service for the year 1919 was sufficient to show an earning of only 1.63 per cent. on its claimed valuation of the property devoted to that service, the difference in valuation which may be disclosed by an independent appraisal would not be sufficient to show that under present rates the company is earning an excessive rate of return. The statements presented for the year 1920 show further that operating expenses, taxes, etc., were approximately \$41,000 in excess of revenues from intrastate business. A sufficient check of the company's appraisal has been made by engineers of the Commission to indicate that a complete reappraisal is not necessary under the circumstances.

In certain respects we are not in agreement with methods employed by the company in its apportionment of revenues and expenses to interstate and intrastate service. The conclusions which it has reached; however, are based on studies of actual business handled over a period of thirty days and such modification or alteration of the methods of apportioning revenues and expenses as may reasonably be made would not seem to result in a finding

that the present rates are excessive. We are accordingly of the opinion, and it is our finding, that the present rates of The Western Union Telegraph Company within this State are not unreasonable and that they should be continued in effect.

ORDER.

The Railroad Commission having ordered that an investigation be instituted on its own motion into the reasonableness of all of the rates and charges and rules and regulations of The Western Union Telegraph Company for telegraph service rendered entirely within the State of California, public hearings having been held, the matter having been submitted and being now ready for decision;

It is hereby found as a fact, that the rates and charges and rules and regulations of The Western Union Telegraph Company for telegraph service rendered entirely within the State of California are just and reasonable. Basing its conclusions on this finding of fact and on the other findings of fact referred to in the opinion preceding this order,

It is hereby ordered, That the complaint herein be, and it is hereby, dismissed.

The foregoing opinion and order are hereby approved and ordered filed as the opinion and order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this twenty-ninth day of June, 1921.

In re APPLICATION OF THE SAN FERNANDO TELEPHONE AND
TELEGRAPH COMPANY FOR AUTHORITY TO ISSUE STOCK.

Application No. 6923 — Decision No. 9197.

Decided June 30, 1921.

Issue of Stock Authorized.

OPINION.

San Fernando Telephone and Telegraph Company, a corporation, asks permission to issue and sell at par \$10,000 of its common capital stock and use the proceeds to pay the cost of plant extensions, additions and betterments.

Applicant was organized on or about July 31, 1914. It reports \$9,900 of stock outstanding. Its funded debt consists of an \$18,250, 6 per cent. note secured by a mortgage upon its properties. For 1920, applicant reports operating revenues of \$18,019.11, and operating expenses, including taxes, amounting to \$13,087.01, leaving \$4,932.10 available for interest, rent and dividends. During 1920, the company paid an 8 per cent. dividend, such payment amounting to \$792.

All of applicant's outstanding stock is owned by J. M. Baldwin, Walter F. Dunn and R. J. McHugh. It appears from the record that applicant's stockholders have agreed to purchase from time to time as applicant may need funds the \$10,000 of stock, which it asks permission to issue.

Applicant reports that its business has been increasing rapidly and that it must make additional provision to properly take care of such increase. A large portion of applicant's anticipated expenditures will be brought about by taking on new subscribers. It appears that applicant can not at this time furnish the Commission with a detailed list of its estimated expenditures for plant extensions, additions and betterments.

The order herein will permit applicant to issue and sell the stock and require applicant to deposit the proceeds in a special fund. Whenever applicant desires to use part of the proceeds obtained from the sale of the stock, it should file with the Commission a detailed statement of expenditures incurred or to be incurred. Following the filing of such a statement, the Commission will make an order authorizing the disbursement of the proceeds from the sale of the stock for such purposes as it may deem appropriate.

I herewith submit the following form of order:

ORDER.

San Fernando Telephone and Telegraph Company having applied to the Railroad Commission for permission to issue and sell \$10,000 of stock and use the proceeds to pay for plant extensions, additions and betterments, a public hearing having been held and the Commission being of the opinion that applicant's request should be granted;

It is hereby ordered, That San Fernando Telephone and Telegraph Company be, and it is hereby, authorized to issue and sell, for cash, at not less than par \$10,000, par value, of its common capital stock.

The authority herein granted is subject to the following conditions:

(1) All proceeds realized from the sale of the stock herein authorized shall be deposited by applicant in a special fund and expended only for such purposes as the Railroad Commission may hereafter authorize by supplemental order or orders.

(2) San Fernando Telephone and Telegraph Company shall keep such record of the issue and sale of the stock herein authorized and of the disposition of the proceeds as will enable it to file, on or before the twenty-fifth day of each month, a verified report as required by the Railroad Commission's General Order No. 24,* which order, insofar as applicable, is made a part of this order.

* See Commission Leaflet No. 9, p. 82.

(3) The authority herein granted will apply only to such stock as may be issued, sold and delivered on or before December 31, 1921.

The foregoing opinion and order are hereby approved and ordered filed as the opinion and order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this thirtieth day of June, 1921.

In re APPLICATION OF THE REEDLEY TELEPHONE COMPANY
FOR AUTHORITY TO ISSUE BONDS AND TO INCREASE
RATES.

Application No. 6287 — Decision No. 9255.

Decided July 23, 1921.

**Increase in Rates Authorized — Reserve for Depreciation Ordered Set
Aside on Monthly Basis — Issue of Bonds Authorized.**

OPINION.

The Reedley Telephone Company, hereinafter referred to as the company, in Application No. 6287 asks the Commission to authorize it to issue such an amount of bonds as will net it \$15,000 and also asks permission to increase its present rates for telephone service. The money secured by the bond issue, the company states, is to be used to pay existing debts which were incurred in making extensions to its plant, to reimburse its treasury and to finance further new construction. The increase in rates, it alleges, is necessary in order that it may secure a fair return upon its investment.

The rates in effect at present are those authorized by the Commission in Decision No. 7027,* dated January 12, 1920, and modified by Decision No. 7830,† dated July 9,

* Noted in Commission Leaflet No. 101, p. 1705.

† See Commission Leaflet No. 108, p. 746.

1920. The latter decision discontinued the 25 per cent. discount for prompt payment of bills, but did not change the rates. The present rate schedule is as follows:

	<i>Per Month</i>	
	<i>Business.</i>	<i>Residence</i>
Main line, wall.....	\$2 75	\$2 25
Two-party line, wall.....	2 25	2 00
Four-party line, wall.....	....	1 75
Six-party line, wall.....	....	1 50
Suburban, wall	2 25	2 00
Extensions*	1 50	1 00
Farmers' lines*	60	40

* Desk telephones are 25 cents additional per month on all classes of service except those marked with the asterisk.

A hearing was held in Reedley. The company did not file any exhibits at the hearing, since the application itself sets forth the net additions to fixed capital since September 1, 1919, the date of the Commission's appraisal of applicant's property in Application No. 4858;† the revenue and expenses from January 1, 1920, to September 1, 1920, as shown by the company's books and the estimated revenue and expenses of one year under present and proposed rates.

The Commission's engineers presented a report which showed the investment in fixed capital as found by taking the sum of the net additions to plant since September 1, 1918, and the appraisal which they had made of the company's property as of that date; the revenue and expenses for the period from December 1, 1919, to November 30, 1920, and an estimate of the revenue and expenses for a period of one year under present rates.

From an analysis of the figures presented by the company and by our engineers, it is our opinion that \$36,500 is a fair value for this property for rate-making purposes, and we suggest this amount as the proper rate base.

† Noted in Commission Leaflet No. 101, p. 1705.

The net income exclusive of interest deductions, for the year ending November 30, 1920, amounted to \$1,840. The gross revenue collected during this period amounted to \$15,767, and the expenses for the same period, including taxes, uncollectable revenue and a reserve for accrued depreciation, amounted to \$13,927. It is apparent, therefore, that a sufficient return has not been made upon the investment during the period analyzed.

A careful estimate of revenues and expenses for one year indicates that the company may reasonably expect a gross revenue of \$17,100 for this period under present rates, with an increase in business amounting to 5 per cent. The expenses for the same period with present rates will be approximately \$14,750, leaving a net income for the year of \$2,350. This amount would be a return of approximately 6½ per cent. upon the rate base suggested above.

The rate structure which we propose should yield, during the next twelve months, a gross revenue of approximately \$17,700, while the expenses will amount to about \$14,800. This, in our opinion, will give the company a fair return upon its investment.

The increase in expenses for the year 1921 over the year 1920 is due to the additional allowance of \$700 per annum for depreciation of plant not covered heretofore by the fund and to the increase in taxes. No allowance was made for an increase nor for a decrease in wages of employees in the estimate.

It is recommended that the Commission order the company to offer the following classes of service and authorize the following rates:

	<i>Per Month</i>	
	<i>Business</i>	<i>Residence</i>
Main line, wall	\$3 00	\$2 25
Two-party line, wall	2 50	2 00
Four-party line, wall .....	....	1 75
Six-party line, wall .....	....	1 50
Suburban, wall	2 25	2 00
Extensions*	1 00	1 00
Farmers' lines†	60	40

* Desk telephones are 25 cents additional per month on all classes of service except those marked with an asterisk. Grabophones are 50 cents additional per month on all classes of service except farmers' lines.

† The above rates for farmers' line service are based upon a minimum of five subscribers per line. Any number less than five shall pay the proper pro rata to equal the revenue from five subscribers.

All services, rules and regulations not covered in this opinion shall remain as provided for in the Commission's Decision No. 2879,‡ decided November 5, 1915, and as modified by the Commission's Decision No. 8146,§ decided September 24, 1920.

SERVICE AND ACCOUNTING.

Subscribers on the so-called Squaw Valley-Dunlap line complained of the service rendered on their line. This matter has been before the Commission informally on several occasions, and is now being handled as a formal proceeding apart from this application.

The company has recently altered its accounting system to conform to the Commission's uniform classification of accounts for telephone companies, as recommended by our engineers and accountants.

ISSUANCE OF SECURITIES.

In Exhibit A applicant reports \$9,582.20 of notes outstanding as of November 1, 1920. In addition the company reports other liabilities amounting to \$4,136.27.

‡ See Commission Leaflet No. 49, p. 327.

§ See Commission Leaflet No. 107, p. 431.

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Applicant asks permission to issue bonds to refund its indebtedness and to reimburse its treasury. It asks authority to issue such an amount of bonds as will net it \$15,000.

Applicant proposes to issue 7 per cent. twenty-year bonds and sell such bonds at not less than 95 and accrued interest. No arrangements have been made by applicant for the sale of the bonds nor has applicant submitted a deed of trust securing the payment of the bonds.

This Commission can obviously not make a final order in this proceeding until there has been filed with the Commission for its consideration a proposed mortgage or deed of trust securing the payment of the bonds.

The order herein, insofar as it relates to the issue of bonds, is of a preliminary character and subject to such modification as may become necessary.

The following form of order is recommended:

ORDER.

Reedley Telephone Company having applied for permission to increase its rates for telephone service and to issue bonds and execute a mortgage, a public hearing having been held, and the Commission being of the opinion that the rates authorized and the classes of service prescribed in this order are just and reasonable and that the money, property or labor to be procured by the issue of the bonds herein authorized is reasonably required by applicant and that the expenditures herein permitted are not in whole or in part reasonably chargeable to operating expense or to income;

It is hereby ordered, That applicant is authorized to establish and file with the Commission within thirty days of the date of this order a schedule of rates and services as outlined in the foregoing opinion. Upon approval of the schedule so filed, applicant is authorized to put these rates into effect subject to the following conditions:

(a) Adequate and efficient telephone service must be rendered at all times for all classes of service.

(b) The depreciation reserve of \$900 per annum ordered set aside in the Commission's Decision No. 7027,* decided January 12, 1920, shall be increased to \$1,600 per annum in monthly installments of \$133.33, and applicant shall file with the Commission within thirty days of the date of this order its suggestions for rules governing the functions and use of the depreciation fund and these rules shall thereafter go into effect as approved or modified by the Commission.

It is hereby further ordered, That the Reedley Telephone Company be, and is hereby, authorized to issue and sell, at not less than 95 per cent. of their face value and accrued interest, \$15,700, face value, of the twenty-year 7 per cent. bonds, *provided* that none of the bonds be delivered until the Commission has authorized applicant to execute a deed of trust securing the payment of the bonds. The Commission will hereafter by supplemental order specify the purposes for which applicant may use the proceeds obtained from the sale of the bonds.

The authority herein granted is subject to further conditions as follows:

(1) Reedley Telephone Company shall keep such record of the issue and sale of the bonds herein authorized and of the disposition of the proceeds as will enable it to file on or before the twenty-fifth day of each month a verified report as required by the Railroad Commission's General Order No. 24,† which order, insofar as applicable, is made a part of this order.

(2) The authority herein granted will not become effective until applicant has paid the fee prescribed in the Public Utilities Act.

(3) The authority herein granted will apply only to such bonds as may be issued, sold or delivered on or before December 31, 1921.

Dated at San Francisco, California, this twenty-third day of July, 1921.

* Noted in Commission Leaflet No. 101, p. 1705.

† See Commission Leaflet No. 9, p. 82.

In re APPLICATION OF THE PACIFIC TELEPHONE AND TELE-
GRAPH COMPANY FOR AUTHORITY TO ACCEPT A FRAN-
CHISE GRANTED BY THE CITY OF SAN MATEO.

Application No. 6951 — Decision No. 9257.

Decided July 23, 1921.

Certificate of Public Convenience and Necessity Granted.

OPINION.

The Pacific Telephone and Telegraph Company asks the Railroad Commission to declare that public convenience and necessity require the exercise by applicant of the rights and privileges conferred upon it by Ordinance No. 228, passed on May 2, 1921, by the board of trustees of the city of San Mateo.

A copy of the ordinance has been filed in this proceeding and is marked applicant's Exhibit B. In general, the ordinance granted to The Pacific Telephone and Telegraph Company, its successors and assigns, for a term of twenty-five years, gives applicant the right and privilege to do a general telephone and telegraph business within the city of San Mateo and to construct, maintain and operate the necessary telephone and telegraph lines and facilities, all subject to the conditions of the ordinance.

Among other things, the ordinance requires applicant, its successors and assigns, to pay annually during the life of the franchise, to the city of San Mateo, 2 per cent. of the gross annual receipts arising from the use, operation and possession of the franchise and privileges, including that portion of the long distance business credited to the exchange of the city of San Mateo. The city of San Mateo is also to have the use, without charge, of certain specified facilities for police and fire alarm purposes.

Applicant reports that it paid \$225 for the franchise and privileges covered by Ordinance No. 228 to the city of San Mateo, that no other public utility is engaged in

the telephone and telegraph business in the city of San Mateo, and that at present it has 1870 subscribers to its telephone service in the city of San Mateo.

I herewith submit the following form of order:

ORDER.

The Pacific Telephone and Telegraph Company having asked the Railroad Commission to declare that public convenience and necessity require applicant to exercise the rights and privileges granted to it by the city of San Mateo under Ordinance No. 228, passed May 2, 1921, a public hearing having been held, and it appearing to the Railroad Commission that public convenience and necessity require the construction, operation and maintenance of the telephone plant and system referred to in said ordinance and that there are no public utilities of a like character at present operating within the territory involved in this proceeding;

Now, therefore, the Railroad Commission of the State of California hereby declares, That public convenience and necessity require, and will require, the exercise by The Pacific Telephone and Telegraph Company of the rights and privileges conferred upon it by Ordinance No. 228, passed on May 2, 1921, by the board of trustees of the city of San Mateo, provided that neither applicant, its successors or assigns, will ever claim before the Railroad Commission, or any other public body having jurisdiction, a value for said franchise or privileges covered by said ordinance for rate-fixing or any other purpose, in excess of \$225, the amount actually paid to the city of San Mateo as a consideration for the granting of said franchise and privileges.

The foregoing opinion and order are hereby approved and ordered filed as the opinion and order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this twenty-third day of July, 1921.

ILLINOIS.

Commerce Commission.

PONTIAC FARMERS TELEPHONE COMPANY, SAUNEMIN MUTUAL TELEPHONE COMPANY, CORNELL TELEPHONE COMPANY, FLANAGAN MUTUAL TELEPHONE ASSOCIATION, GRAYMONT CENTRAL TELEPHONE COMPANY, WESTON INDEPENDENT TELEPHONE COMPANY, EPPARDS POINT TELEPHONE COMPANY, PIKE TOWNSHIP TELEPHONE COMPANY
v. AUTOMATIC HOME TELEPHONE COMPANY.

Case No. 10850.

Decided October 6, 1921.

Former Order of Public Utilities Commission Set Aside—Contract Providing for Physical Connection Approved—Certificate of Convenience and Necessity not Required for Reconstruction of Lines in Existence when Public Utility Act became Effective but Abandoned without Consent of Commission—Restoration of Abandoned Lines Authorized.

OPINION AND ORDER.

The application of the petitioners in this cause was filed with the Public Utilities Commission on July 31, 1920. Upon a hearing by the Commission an order * was entered on the twenty-second day of December, 1920, denying the application for the approval of the contract. A petition for rehearing was filed and subsequently on April 19, 1921, there was a rehearing of said cause upon additional investigation made by the engineers of the Commission. No formal order allowing a rehearing has been entered but the case has been reargued upon the report of the engineers of the Commission and such evidence as had been previously taken, and in effect a rehearing was had without such formal order, and the Commission is

* See Commission Leaflet No. 111, p. 168.

now in a position to pass upon the merits of the case independently of the order heretofore entered.

The application is of the Pontiac Farmers Telephone Company, Saunemin Mutual Telephone Company, Cornell Telephone Company, Flanagan Mutual Telephone Association, Graymont Central Telephone Association, Westor Independent Telephone Company, Eppards Point Telephone Company and the Pike Township Telephone Company, a system and association of rural telephone companies and associations which are operated not for profit but for the convenience and accommodation of the users at as nearly the cost of the service as they have been able to estimate, for the approval of a contract entered into by and with the Pontiac Farmers Telephone Company to maintain an exchange in the city of Pontiac through which there may be free exchange service among the members of these several companies and associations. None of these companies and associations are in business for profit, but all are used as mere agencies through which their subscribers and members may furnish to each other local telephone service at approximately the cost of such service.

The Automatic Home Telephone Company was made a party defendant and has made the only resistance to the approval of this contract which has been interposed at the various hearings. The evidence shows that the petitioners organized the Livingston County Mutual Telephone Association sometime about the year 1903; that the association consists of the named rural telephone companies and associations outside the city of Pontiac in Livingston County; that about that year said association entered into a contract with the Central Union Telephone Company which then operated an exchange within the city of Pontiac, to furnish interchange service through its Pontiac switchboard for the members of this association at a stated yearly compensation. The contract provided for each of the central exchanges of the association to construct trunk lines from their central exchanges to the cor-

poration line of the city of Pontiac. The Central Union extended trunk lines from its Pontiac exchange to connect with these several trunk lines and formed thereby a complete connection between all of these exchanges through the switchboard of the Central Union in Pontiac. About 1902 the Automatic Home Telephone Company was organized and entered into competition with the Central Union Telephone Company in the city of Pontiac. The Automatic had a very small percentage to begin with and sought the same connections with the petitioners that existed with the Central Union and offered to build the trunk lines from its Pontiac exchange to the several exchanges of petitioners, maintain the same, render free service and give reciprocal free service over its lines in Pontiac; by that method the Automatic was enabled to establish a valuable business in Pontiac in competition with the Central Union. After the Automatic entered the field like free service was granted by the Central Union, doubtless prompted by the same motives of competition and in recognition of the value of the service to the subscribers of the Central Union in Pontiac. This condition continued until there was a consolidation of the properties of the Central Union Telephone Company and the Automatic Home Telephone Company.

After such consolidation the Automatic abandoned the use of the Central Union exchange and the use of the trunk lines connecting the exchanges of petitioners with the Central Union exchange but continued for a time the free service through the Automatic switchboard in Pontiac and there was at that time no diminution of free service to the petitioners. The portions of trunk lines connecting petitioners' exchanges with the Central Union exchange constructed by the Central Union were permitted by the Automatic to fall into decay but the portions constructed by the several petitioners remain substantially intact. There was no application by the Automatic to this Commission for permission to abandon either the Central Union exchange, the trunk lines connecting petitioners

therewith, or the service rendered by that exchange to the petitioners. The Automatic then made application to this Commission without actual notice to the petitioners for the approval of a schedule of rates placing a toll charge upon all of the petitioners having free service through the Automatic exchange in Pontiac, except Ocoya and Graymont, to which the free service was continued as before. There is no proof in the record tending to show that these two exchanges stand in any different relation to the Automatic Home Telephone Company or other petitioners than the other petitioners sustain to the Automatic, Ocoya, Graymont and each other.

The contract in evidence requires the Pontiac Farmers Telephone Company to furnish telephone connections with the exchanges of the other parties for the benefit of their subscribers through the exchange of the Pontiac Farmers; that they shall pay the Pontiac Farmers \$1,000 for the first year's exchange service which shall also be in full compensation for the expense and service of carrying the trunk lines of the companies and associations from the corporate limits of the city of Pontiac to the switchboard of the Pontiac Farmers in Pontiac and making connection therewith. It further provides that the Pontiac Farmers shall at its own expense maintain all telephone lines covered by the contract within the city limits of Pontiac and that the other parties shall at their own expense maintain all of said lines outside the city limits of Pontiac. The contract further provides that after the first year the several exchanges shall pay an amount annually sufficient to cover the actual expense of the service. The evidence in the record shows that the basis upon which the expense is divided among the subscribers is in proportion to the number of telephones used; that is to say, the same charge is made for the use of each telephone in mutual service based upon the actual expense incurred in operating the several exchanges; but said contract provides that a new contract shall be entered into at the end of the first year to cover the expense of rendering the exchange service.

It is evident that the object of the Automatic Home Telephone Company in resisting the approval of this contract is to keep for itself control of petitioners and the subscribers of these several exchanges and impose upon them a charge for exchange service. It is contended that the rehabilitation of the trunk lines which it has abandoned and connecting them with the exchange of the Pontiac Farmers Telephone Company cannot be done without a certificate of convenience and necessity. Whether that contention is correct or not it is not necessary to decide here, as no application for a certificate of convenience and necessity is required to reconstruct lines which were in existence when the Public Utilities Act became effective and have been discontinued temporarily without the consent of this Commission, and the Automatic can not gain any precedence over the petitioners by failing to maintain the connection with the Central Union existing at the time of the consolidation.

Moreover, if it were necessary to have the certificate of convenience and necessity before constructing new lines, no new lines are sought to be constructed and it is not necessary that such certificate should be granted prior to the approval of this contract.

It is also insisted that because the Automatic is giving free exchange service to Ocoya and Graymont approval of this contract would give access and free service through those exchanges to other petitioners, and that the rates fixed by the Commission could not be, as a practical matter, enforced. There is no apparent reason why the Automatic should grant free service to Ocoya and Graymont and deny it to other petitioners in a similar position with reference to the Automatic and to each other and to Ocoya and Graymont. Moreover, the evidence in the record clearly shows that the physical conditions giving such access through the exchanges of Ocoya and Graymont with which the other petitioners are connected could be overcome by the use of a manual switchboard operator and the burden of so operating its lines as to prevent other com-

panies or associations having connection with each other from making a free use of its lines rests upon the Automatic, and the failure to so adjust its operations as to accomplish that object furnishes no reason why this Commission should deny to the petitioners the right to make a reasonable use of their own properties and maintain such connections among themselves as will facilitate the purposes of their organizations and accommodate their members. Besides the weight of the evidence shows that the free service granted to Ocoya and Graymont is discriminatory against other petitioners and the Automatic cannot, therefore, found any right or make any claim based upon that arrangement.

Having considered all of the evidence in the record, including the report of the engineers of this Commission, and their testimony in explanation thereof, the Commission finds:

1. That the petitioners have the right to establish exchange service through the switchboard of the Pontiac Farmers Telephone Company; and the exercise of that right will accommodate the members and users of the service furnished by petitioners, and affect no property right of respondent.

2. That the contract submitted is reasonable in terms to effect the object of free exchange service to the members of the Livingston County Mutual Telephone Association through the switchboard of the Pontiac Farmers Telephone Company, and that the compensation fixed by the contract for the first year is reasonable, and the provision for fixing the same in the future with the approval of this Commission, a proper and just one.

3. That said contract contains no discriminatory provisions, or provisions affecting any property right of respondent, but is a proper exercise of the right of contract.

4. That the approval of said contract does not involve the construction of new duplicate toll lines in territory already adequately served, nor is the question of whether

a certificate of convenience and necessity is required under the circumstances here involved.

5. That the Automatic Home Telephone Company is not entitled to have this contract disapproved upon the grounds that it is rendering free service to Ocoya and Graymont and that without additional expense for a telephone operator it could not adequately protect itself against the use of its lines by subscribers of petitioners having connections with Ocoya and Graymont. The burden is upon the Automatic to so operate its lines as to protect itself from free service and collect lawful charges fixed by this Commission and it cannot by granting free service to some of petitioners and denying that service to others acquire any right to object to exchange service among all the petitioners under the provisions of the contract submitted for approval.

6. That the order * of the Commission heretofore entered was predicated upon findings which are not controlling and should be set aside.

It is, therefore, ordered, That the order * of the Public Utilities Commission of Illinois entered on the twenty-second day of December, 1920, be, and the same is hereby, vacated and set aside.

It is further ordered, That the said contract submitted by the petitioners herein be, and the same is hereby, approved; and the said petitioners are authorized to restore the lines existing at the time of the consolidation between the Central Union Telephone Company and the Automatic Home Telephone Company, connect the same with the switchboard of the Pontiac Farmers Telephone Company in Pontiac, and render service in accordance with said contract.

It is further ordered, That no change, additions or modification of the said contract shall be effective without the approval of the Commission.

By order of the Commission, at Springfield, Illinois, this sixth day of October, 1921.

* See Commission Leaflet No. 111, p. 168.

In re APPLICATION OF THE CUBA CENTRAL TELEPHONE COMPANY FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY TO OPERATE A TELEPHONE SYSTEM IN CUBA AND FOR AN ORDER AUTHORIZING THE ISSUE OF COMMON CAPITAL STOCK.

Case No. 11501.

Decided October 13, 1921.

Certificate of Convenience and Necessity Granted — Issue of Stock Authorized.

OPINION AND ORDER.

On March 3, 1921, an application was filed herein by the Cuba Central Telephone Company, asking that a certificate of convenience and necessity be issued by the Illinois Commerce Commission to the Cuba Central Telephone Company, a corporation, covering the operation of a telephone system located in Cuba, county of Fulton, and vicinity; and that the Cuba Central Telephone Company be authorized by the Illinois Commerce Commission to issue its common capital stock in the aggregate amount of \$7,500.

The matter came on for hearing before the Commission on April 7, 1921, at which time the petitioner was represented by *George M. Gillespie*, attorney, and no one appeared objecting. Copy of articles of incorporation of the Cuba Central Telephone Company was filed as a part of the application herein, and subsequent to the hearing and at the direction of the examiner, the petitioner submitted an inventory and valuation of the property of the Cuba Central Telephone Company as of November 1, 1920, and same became part of the record in this cause.

It appears from the record that prior to October 12, 1920, the Cuba Central Telephone Company was an association of parties living in Cuba, county of Fulton, and vicinity, who had each contributed certain amounts of money, and had constructed and was operating a telephone plant serving subscribers in Cuba, and territory adjacent

thereto. On October 12, 1920, the association applied to the Secretary of the State of Illinois for articles of incorporation and these articles were granted. Each party of the former association agreed to take shares in the new corporation to the extent of money invested in the old association and in addition to the shares of stock represented by the property in the old association it was found necessary for the new corporation to issue additional stock to enable the company to make certain improvements and extensions to the telephone plant in order to furnish adequate and satisfactory service. The Cuba Central Telephone Company has now applied to the Illinois Commerce Commission for a certificate of convenience and necessity to operate as a public utility and for authority to issue common capital stock in the aggregate amount of \$7,500, divided into 750 shares at a par value of \$10.00 per share.

The inventory and appraisal of the property as submitted by the petitioner, indicates a value of \$4,540, and this amount is covered by shares in the old association, which will be surrendered for stock in the Cuba Central Telephone Company, incorporated. Additional shares in the company have been disposed of to the amount of \$780, which has been used to purchase a new switchboard at a cost of approximately \$400, and to finance the purchase of approximately 1,400 feet of cable. Furthermore, a house and lot has been purchased at a cost of \$1,200, and necessary repairs thereon are estimated to cost at least \$500. New poles and wire must be purchased to rehabilitate the plant, and the estimated cost of this work will require the expenditure of all of the balance in cash which will be realized from the sale of the \$7,500, par value, of common capital stock which it is proposed to issue.

After careful consideration of the record the Commission is of the opinion, and finds:

1. That the Cuba Central Telephone Company, a corporation, is a public utility within the meaning of Section 10, Article 1, of an Act Concerning Public Utilities now in effect in Illinois.

2. That the application of the Cuba Central Telephone Company, a corporation, for the issuance of a certificate of convenience and necessity authorizing it to operate a telephone system within the territory as described in the application herein, will, if granted, promote the public convenience and is necessary thereto and should be approved.

3. That the issuance by the Cuba Central Telephone Company, a corporation, of \$7,500, par value, of its common capital stock will involve a capitalization of facilities ultimately to be acquired not in excess of their value and should be approved.

It is, therefore, ordered by the Illinois Commerce Commission as follows:

Section 1. That a certificate of convenience and necessity covering the maintenance and operation of the telephone system of the Cuba Central Telephone Company, in Cuba, county of Fulton, and vicinity, as more fully described in the application herein be, and the same is hereby, granted to the Cuba Central Telephone Company, a corporation, in accordance with Section 55 of an Act Concerning Public Utilities now in effect in Illinois, and that the said certificate of convenience and necessity be issued under seal of this Commission and authenticated by its secretary.

Section 2. That the Cuba Central Telephone Company, a corporation, be, and the same is hereby, authorized to issue its common capital stock in the aggregate amount of \$7,500, which shall be used to redeem the outstanding shares in the present association, to purchase and repair the house in which to place the new switchboard, and to rehabilitate the present telephone plant, and for no other purpose.

Section 3. That the Cuba Central Telephone Company, a corporation, shall keep separate, true, and accurate account showing the receipt and application in detail of the proceeds, sale and disposal of the said capital stock

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herein authorized to be issued, and at the end of every thirty days from the date hereof the said company shall make verified report stating the sale of capital stock, the terms and conditions of sale, the money realized therefrom, and the use and application of such money. The said accounts shall be open to audit and may be audited from time to time by accountants designated for the purpose by the Commission.

Section 4. That the estimated value of the property involved represented by the value of the securities authorized to be issued herein shall not be considered as conclusive evidence of the value of the property should that question be hereafter presented to the Commission in a rate proceeding.

Section 5. That the Cuba Central Telephone Company, a corporation, before the delivery of any certificate of stock herein authorized to be issued, shall cause to be printed, stamped or engraved on the face of each of the said certificates for the purpose of proper and easy identification of same the following:

ILLINOIS COMMERCE COMMISSION,

Authorization No. 1247,

October, 1921.

By order of the Commission at Springfield, Illinois, this thirteenth day of October, 1921.

INDIANA.

Public Service Commission.

In re PETITION OF THE MOORESVILLE TELEPHONE COMPANY
FOR AUTHORITY TO ESTABLISH A GROSS RATE.

No. 5822.

Decided October 28, 1921.

Gross and Net Rates Provided in Order to Make Allowance for Discount.

SUPPLEMENTAL ORDER.

On October 5, 1921, the Mooresville Telephone Company, a corporation engaged in furnishing telephone service in the town of Mooresville and territory adjacent thereto, filed with the Commission a petition, the essential averments of which are:

That it is a corporation organized and doing business under the laws of the State of Indiana, and as such corporation is a public utility; that for a number of years past its collection policy has been to make the bills for telephone service due on the first of the month succeeding that in which service is rendered; but that no disconnection of service would be made for delinquency of payment until at least sixty days had expired after the date due; that the actual operation of the aforesaid rule has proven detrimental to the interest of the petitioner as well as the patrons in that it has resulted in a loss of from \$100 to \$300 per year in bad accounts. Petitioner therefore prays for authority to establish a gross rate and a net rate, said net rate being the same rate as was established and heretofore authorized in the original order in Cause No. 5822, approved April 30, 1921, all of which is as follows:

<i>Class of Service</i>	TELEPHONE SCHEDULE.	
	<i>Per Month</i> <i>Gross</i>	<i>Net</i>
Business, single line, town.....	\$2 25	\$2 00
Residence, single line, town.....	2 00	1 75
Residence, party line, town.....	1 75	1 50
Residence, party line, rural.....	1 75	1 50
Business, party line, rural.....	2 00	1 75
Extension telephone.....	75	50

The net rate shall be charged if the account is paid on or before the tenth day of the month following that in which service is rendered, otherwise the gross rate shall be applied.

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If the account is not paid on or before the fifteenth day of the month following that in which service is rendered, said service shall be discontinued, in which event said delinquent patron shall be required to pay a disconnection charge of \$1.00 in addition to the amount due for service.

After due notice to interested parties, the matter was heard in the offices of the Commission, Indianapolis, Indiana, at 10:30 A. M., October 26, 1921.

The evidence supports the allegations set out in the petition and further shows that a majority of the patrons pay from the first to the twentieth of the month following that in which service is rendered, while other accounts are delinquent from sixty days to six months, and the average loss in revenue sustained by petitioner is approximately \$200 per year, which said loss must be made up by other patrons who pay their accounts promptly, if the petitioner is to earn sufficient revenues with which to pay its operating expenses and a fair return upon the value of its property.

The Commission, having heard the evidence and being fully advised, finds that the prayer of petitioner should be granted, and it is so ordered.

It is, therefore, ordered by the Public Service Commission of Indiana, That the Mooresville Telephone Company be, and it is, authorized and directed to charge and collect the following schedule of rates for telephone service, effective thirty days after filing with the Commission, as provided in this order and until further order of the Commission:

TELEPHONE SCHEDULE.

	<i>Per Month</i>	
	<i>Gross</i>	<i>Net</i>
Business, single line, town.....	\$2 25	\$2 00
Residence, single line, town.....	2 00	1 75
Residence, party line, town.....	1 75	1 50
Residence, party line, rural.....	1 75	1 50
Business, party line, rural.....	2 00	1 75
Extension telephone.....	75	50

The net rate shall be charged if the account is paid on or before the tenth day of the month following that in which service is rendered, otherwise the gross rate shall be applied.

[Ind.]

If the account is not paid on or before the fifteenth day of the month following that in which service is rendered, said service shall be discontinued, in which event said delinquent patron shall be charged with a disconnection charge of \$1.00 in addition to the amount due for service, all of which must be paid in full before service is again furnished said delinquent patron.

It is further ordered, That on or before October 31, 1921, the Mooresville Telephone Company shall file with the tariff department of this Commission, and shall post and keep posted in its office in full view of the public during the entire period such schedule is in effect, a printed or typewritten copy of such schedule of rates, as required by Sections 41-47 of the Public Service Commission Act.

October 28, 1921.

In re PETITION OF THE HOPE INDEPENDENT TELEPHONE COMPANY FOR AUTHORITY TO ISSUE PREFERRED STOCK.

No. 6279.

Decided October 28, 1921.

Issue and Sale of Stock Authorized.

ORDER.

On October 21, 1921, the Hope Independent Telephone Company filed with the Commission its petition, averring that it is a corporation with its principal place of business in the town of Hope; that it operates telephone exchanges in the towns of Hope, Hartsville, Geneva and St. Paul, Indiana; that the value of its property is greatly in excess of outstanding obligations against the company; that during the last year, two exchanges have been added to the system, one at Geneva and one at St. Paul, with a total of 365 additional subscribers. Petitioner prays the Commission to issue an order authorizing the increase of its present preferred outstanding stock from \$17,000 to \$30,000.

After due notice a hearing was held in the rooms of the Commission.

The evidence shows that the capital stock of said Hope Independent Telephone Company is \$12,000, consisting of 240 shares of the par value of \$50.00 each; and that said company has authorized and outstanding \$17,000 of preferred stock

It appears that petitioner had a sinking fund of \$12,-617.32, which was used in the purchase of what is known as the Cave telephone plant and system and the St. Paul plant and system; that the purchase price of said systems was \$4,000 and that extensions and betterments were added to said plants amounting to \$7,000.

The evidence further shows that petitioner owes to the Hope State Bank \$2,000 and outstanding bills amounting to \$2,000; and that the value of petitioner's property is \$36,000.

The Commission, having heard the evidence and being fully advised in the premises, finds that the prayer of petitioner should be granted, and it will be so ordered.

It is, therefore, ordered by the Public Service Commission of Indiana, That the Hope Independent Telephone Company be, and it is, authorized to issue and sell at par, in denominations of \$100 per share, \$13,000 of preferred stock bearing 7 per cent. interest, payable semi-annually, the proceeds from the sale of said stock to be used to reimburse petitioner's treasury for betterments and extensions to its plants.

It is further ordered, That on completion of such betterments and extensions, petitioner shall file with the Commission an itemized statement of the expense of same.

It is further ordered, That before issuing or selling any of such securities, petitioner shall pay to the Treasurer of State, through the secretary of this Commission, the sum of \$19.50, the fee for the issuance of such securities prescribed in Section 96 of the Public Service Commission Act.

October 28, 1921.

In re APPLICATION OF O. V. STARR, DOING BUSINESS UNDER
THE NAME OF THE MEDORA TELEPHONE COMPANY, FOR
AUTHORITY TO ISSUE BONDS.

No. 6332.

Decided October 28, 1921.

Issue of Bonds Authorized.

ORDER.

On October 28, 1921, O. V. Starr filed with the Commission his verified petition, asking authority to issue bonds in the aggregate sum of \$7,500. The material allegations of the petition are:

That the petitioner is the owner of the telephone utility in the town of Medora, Jackson County, Indiana, and that he operates the same under the name and style of The Medora Telephone Company; that he has incurred an indebtedness of some \$5,000, of which \$3,500 was incurred in the purchase of the plant and system, and the remaining \$1,500 in making extensions and betterments in said plant and system;

That it is necessary and the petitioner intends to expend an additional \$2,500 in improvements and betterments of said plant and system; that in order to pay off said indebtedness of \$5,000 and to expend \$2,500 in making improvements and betterments, the petitioner proposes to issue bonds in the sum of \$7,500; that he expects to receive \$6,750 in cash for said bonds, that being 90 per cent. of the face value thereof; that he proposes to issue 75 bonds of the denomination of \$100 each, maturing in ten years from date, and bearing interest at 7 per cent., payable semi-annually, and that the value of the plant and system is in excess of \$15,000.

On the same day that the petition was filed, a hearing was held at the offices of the Commission. The evidence presented at this hearing shows that the value of the plant and system of the petitioner is in excess of \$15,000 and that the expenditure of the money to be received by the sale of the proposed bonds will enhance the value of the property to at least as great a degree as the amount of the bonds.

The Commission being duly advised in the premises, is of the opinion, and finds, that authority should be granted

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the petitioner to issue and sell bonds in the sum of \$7,500, and that the proceeds of such issue shall be expended in paying the aforesaid debts of the utility already incurred and in improvements and betterments to the plant and system of said utility.

It is, therefore, ordered by the Public Service Commission of Indiana, That O. V. Starr be, and he is, authorized to issue bonds in the aggregate sum of \$7,500, bearing interest at the rate of 7 per cent. per annum, and to sell said bonds for not less than 90 per cent. of their face value and to expend the proceeds thereof upon the payment of the debts heretofore incurred in purchasing and improving his telephone plant and system at Medora and in further improvements and betterments of said system.

It is further ordered, That within six months from this date petitioner shall file with this Commission a verified report showing the disposition made of the proceeds of the sale of said bonds, and shall, every six months thereafter, file a like report until the disposition of the proceeds of the sale of said bonds shall have been fully accounted for to this Commission.

It is further ordered, That before issuing such bonds and within twenty days from the date of this order, petitioner shall pay to the Treasurer of State, through the secretary of this Commission, the sum of \$11.25, the statutory fee in this matter.

October 28, 1921.

In re PETITION OF THE MITCHELL TELEPHONE COMPANY FOR
AUTHORITY TO ISSUE NOTES.

No. 6353.

Decided November 23, 1921.

Issue of Notes Authorized.

OPINION AND ORDER.

On November 17, 1921, the Mitchell Telephone Company, of Mitchell, Lawrence County, Indiana, a corporation engaged in furnishing telephone service in the city of Mitchell and vicinity thereof, filed with the Commission a petition, the essential averments of which are as follows:

That it is a corporation duly organized and existing under the laws of the State of Indiana, with its principal place of business in the city of Mitchell; that it is a public utility within the provisions of said law, and is engaged in furnishing telephone service in said city and in the towns of Huron and Shoals and surrounding territory; that its total investment or fixed value of plant was, on September 30, 1921, \$56,250.12; that its capital stock consists of \$30,000 or 300 shares of \$100 par value each; that it has no outstanding bonded indebtedness; that it is the desire and intention of said petitioner to eliminate all overhead construction, consisting of its poles and wires in said city and towns, and construct in lieu thereof a complete underground system; that it has been working to this end for the past year and it now has completed and in service approximately one mile of underground system; that it has purchased more than \$8,000 worth of material and supplies, which is already on hand; that the expenditures for said construction material purchased have absorbed all the ready cash and working capital of petitioner, and it is also indebted to various individuals as a result of said capital expenditures in the amount of more than \$8,000, all of which creates a necessity for additional funds other than can be secured through the source of revenue. Wherefore, petitioner seeks authority to issue and dispose of \$8,500 of its notes, bearing interest not to exceed 8.4 per cent. and to run not to exceed seven years, to be used to liquidate said open accounts and furnish additional working capital.

The Commission, being fully advised, finds that the prayer of petitioner should be granted, except that the interest rate will be limited to 8 per cent., and it will be so ordered.

It is, therefore, ordered by the Public Service Commission of Indiana, That the Mitchell Telephone Company be, and it is, authorized to issue and sell \$8,500 of its notes at par, at not to exceed 8 per cent. interest, and to use the proceeds of said sale for the purpose of liquidating open accounts created by the purchase of material for capital investment to provide additional working capital and such other purposes as may be necessary in making permanent additions to and extending its property and plant, and for no other purpose.

It is further ordered, That before issuing or selling any of such securities, the Mitchell Telephone Company shall pay to the Treasurer of State, through the secretary of this Commission, the sum of \$12.75, the fee for the issuance of such securities as prescribed in Section No. 96 of the Public Service Commission Act.

November 23, 1921.

KANSAS.

Public Utilities Commission.

In re APPLICATION OF THE FARMERS AND MERCHANTS TELEPHONE COMPANY OF ALMA, NEBRASKA, FOR INCREASE IN RATES AT LONG ISLAND.

Docket No. 4134.

Decided November 5, 1921.

**Increase in Rates Authorized — Company Not Required to Accept New
Subscribers Owning and Maintaining Instruments — Applica-
tion to Discontinue Free Service Between Exchanges
Denied — Permission Granted to Substitute
Applicant's Own Lines for Lines
Owned by Other Parties.**

ORDER.

Now on this fifth day of November, 1921, this matter comes on for order by the Commission upon the application filed herein, and the evidence introduced thereunder; and the Commission, after a full consideration of such application and evidence, and being fully advised in the premises, finds that the rates heretofore charged by the applicant at its exchange at Long Island, Kansas, are unreasonably low, and should be increased as hereinafter ordered; and the Commission further finds that the rates hereinafter authorized are just, reasonable, compensatory, will enable applicant to earn a reasonable return upon its property used and useful in its plant at Long Island, Kansas, after paying all necessary operating expenses, and setting aside a reserve for depreciation.

The Commission further finds that the application filed herein asks for the discontinuance of certain practices heretofore pertaining to the management of its said exchange, and that such application should be granted in part, and denied in part, as hereinafter ordered.

It is, therefore, by the Commission ordered, That the Farmers and Merchants Telephone Company of Alma, Nebraska, be, and it is hereby, authorized to file and put in effect a schedule of rates for telephone service at Long Island, Kansas, as follows:

	<i>Per Month</i>
Individual line, business telephones.....	\$2 00
Individual line, residence telephones.....	1 25
Rural party line telephones.....	1 25
Desk sets, extra.....	25
	<i>Per Year</i>
Rural switching service.....	\$5 00

It is further by the Commission ordered, That in cases where subscribers own and maintain telephone instruments, and the company owns and maintains the line, a discount of 25 cents per month be made from the above rates to compensate such subscriber for the use of such instrument.

Provided, that this shall not be construed as modifying or changing the rate for rural switching service as hereinbefore set forth, and

Provided, further, that applicant shall not be required to accept any new subscribers (except switching subscribers) who own and maintain their own instruments, but that such discount shall apply only to present subscribers.

It is further by the Commission ordered, That all parts of the application filed herein relating to discontinuance of so-called free or reciprocal service between exchanges be denied.

It is further by the Commission ordered, That all subscribers upon any of the rural switching lines connected with the exchange of the applicant be required to pay the switching rate of \$5.00 per year as hereinbefore established, notwithstanding the fact that such switching subscribers are connected with and pay an additional charge at other exchanges.

It is further by the Commission ordered, That applicant be permitted to own all lines within the city limits of Long Island, Kansas; that applicant may purchase all lines now owned by other parties within such city limits if it is possible for applicant and other owners to agree upon the terms of such purchase; and that in case such agreement is impossible, applicant be permitted to construct lines in place of such lines owned by other parties within the city limits, and to connect such lines with its switchboard in lieu of the lines owned by such other parties, and to disconnect such lines owned by other parties within such city limits,

Provided, however, that this order shall not be construed as permitting the applicant to discontinue service to any subscriber upon lines owned by other parties within such city limits, except upon their own request, but simply to authorize applicant to substitute its own line for such lines owned by other parties.

It is further by the Commission ordered, That the applicant furnish reasonable, sufficient and efficient telephone service to its subscribers at all hours,

Provided, however, that between the hours of 9 o'clock P. M. and 6 o'clock A. M., only emergency calls need be accepted by the applicant.

It is further by the Commission ordered, That all rates, charges, classifications, rules, regulations, and practices pertaining to the service of the applicant at its exchange at Long Island, Kansas, not specifically changed herein be continued in full force and effect.

November 5, 1921.

In re APPLICATION OF THE WAKEENEY TELEPHONE COMPANY
ASKING THE PUBLIC UTILITIES COMMISSION TO MAKE
INVESTIGATION OF THE TREGO COUNTY COOPERATIVE TELE-
PHONE COMPANY.

Docket No. 4330.

Decided November 5, 1921.

**Commission Held to be Without Jurisdiction Over Purely Mutual
Company — Application Dismissed.**

ORDER.

Now on this fifth day of November, 1921, this matter comes on for order by the Commission upon the application filed herein, and the evidence introduced thereunder; and the Commission, after consideration of such application and evidence, finds that the Trego County Cooperative Telephone Company is a mutual or cooperative telephone company operating only for the mutual benefit of its subscribers without profit other than in the service received at Wakeeney, Trego County, Kansas; and that the Commission has no jurisdiction to make any order regarding the operation or construction of such company as long as it continues to operate as a mutual or cooperative company.

The Commission further finds that at the time of its organization, it was the intention of such Trego County Cooperative Telephone Company to engage in a commercial business, and that it is permitted by its charter so to do; but that according to the provisions of its by-laws, full power was lodged in the directors of the company to control the policy of the company, and in accordance therewith the board of directors has ordered and directed that such company operate only as heretofore set forth, and that the evidence does not show any bad faith or evasion of the law on the part of such directors in so doing.

The Commission further finds that the Trego County Cooperative Telephone Company has constructed several lines, but has not commenced operation of its plant, and

that all of its lines so constructed have been constructed only to residences of its stockholders, and that such company has made no arrangements for the handling of any toll business.

The Commission further finds that the Trego County Cooperative Telephone Company is engaged, in part at least, in developing territory not heretofore developed by any telephone company, and to such extent will operate to the benefit of the public convenience and necessity.

It is, therefore, by the Commission ordered, That the application of the Wakeeney Telephone Company, asking the Public Utilities Commission to make investigation of the Trego County Cooperative Telephone Company, be dismissed without prejudice to future complaint in case such Trego County Cooperative Telephone Company does business in such a way as to bring it within the jurisdiction of this Commission.

November 5, 1921.

In re APPLICATION OF THE OGDEN MUTUAL TELEPHONE COMPANY FOR PERMISSION TO INCREASE RATES.

Docket No. 4094.

Decided November 7, 1921.

**Increase in Rates Authorized — Charge for Non-Subscriber Calls
Established.**

ORDER.

Now on this seventh day of November this matter comes on for final order by the Commission, upon the application of the Ogden Mutual Telephone Company of Ogden, Kansas, filed May 6, 1921, and the testimony introduced at the hearing at Ogden on November 3, 1921. The Commission, being fully advised in the premises, finds that the request of the applicant is reasonable and should be granted.

It is, therefore, by the Commission ordered, That the Ogden Mutual Telephone Company be, and it is hereby, permitted to amend its schedule of rates dated December 16, 1919, by increasing the rate for individual line telephones from \$1.00 to \$1.25 per month, and for all service where the subscriber furnishes his own equipment from \$10.00 per annum to \$1.00 per month.

It is further ordered, That the Ogden Mutual Telephone Company be permitted to file and charge a rate of 5 cents for each call made by a non-subscriber from a subscriber's telephone.

November 7, 1921.

In re APPLICATION OF THE CLAFLIN TELEPHONE COMPANY
FOR PERMISSION TO MAKE CERTAIN CHANGES IN RATES
FOR TELEPHONE SERVICE.

Docket No. 3804.

Decided November 17, 1921.

Increase in Rates Authorized.

ORDER.

Now on this seventeenth day of November, 1921, this matter comes on for further consideration by the Commission; and the Commission, after a full consideration of all the evidence, and being fully advised in the premises, finds that the schedule of rates authorized in its previous order to be charged for telephone service at Claflin, Kansas, are insufficient and inadequate to pay the fair and reasonable operating expenses of said company, and to enable said company to set up a sufficient depreciation reserve, and to pay a fair rate of return upon the value of its property used and useful in the telephone business at Claflin, Kansas; and that on account of certain conditions peculiar to the operation of said exchange, the cost

of furnishing service at Claflin, Kansas, is higher than at other points within the State, and that the applicant should accordingly be permitted to charge a higher rate for such service; and that the schedule of rates hereinafter approved are just, reasonable, compensatory, and will enable the applicant to earn a reasonable return upon its investment.

It is, therefore, by the Commission ordered, That the Claflin Telephone Company be, and it is hereby, authorized to file and put into effect a schedule of rates for telephone service at Claflin, Kansas, as follows:

	<i>Per Month</i>
Individual line, business telephones.....	\$2 75
Individual line, residence telephones.....	1 75
Two-party line, residence telephones.....	1 50
Four-party line, residence telephones.....	1 25
Rural line telephones.....	1 75
Extension sets, business.....	1 00
Extension bells.....	25
Rural switching service.....	60
Desk sets, extra.....	25

All other rates, charges, and classifications now in force to remain in effect.

November 17, 1921.

MINNESOTA.

Railroad and Warehouse Commission.

In re APPLICATION OF THE SACRED HEART TELEPHONE COMPANY FOR AUTHORITY TO INCREASE LOCAL TELEPHONE RATES.

Decided October 27, 1921.

Increase in Rates Authorized.

ORDER.

Pursuant to notice, hearing in the above matter was held at Sacred Heart, Minnesota, October 14, 1921. *H. C. Omholt*, secretary, appeared for the petitioner.

The Sacred Heart Telephone Company is a corporation, organized in 1905, and serves approximately 125 town stations and performs switching service for 205 connecting company stations.

The present rates of the company are as follows:

	<i>Per Month</i>
Individual line, business.....	\$2 00
Individual line, residence.....	1 00
Rural switching.....	33½

The petitioner seeks authority to establish and place in effect the following schedule of rates:

	<i>Per Month</i>
Individual line, business.....	\$2 50
Individual line, residence.....	1 50
Two-party line, residence.....	1 25
Rural switching.....	33½

At the hearing the petitioner requested that the application be amended to eliminate the two-party residence telephone service.

Statements covering the operations of the company for the years of 1918, 1919, 1920, and nine months of 1921 were submitted. The statements submitted have been carefully checked by the Commission. These statements indicate

that the company for the past two years has been unable to earn a sufficient amount to provide for the necessary operating expenses and depreciation of the property. No dividends have been paid on the capital stock since 1919.

Upon review of all the facts the Commission finds that the rates petitioned for are fair and reasonable and will not yield more than sufficient revenue to provide for the necessary operating expenses, depreciation and a fair return upon the investment.

It is, therefore, ordered, That the Sacred Heart Telephone Company be, and the same is hereby, permitted to establish and place in effect, as of November 1, 1921, the following rates for local and rural telephone service at Sacred Heart, Minnesota:

	<i>Per Month</i>
Individual line, business	\$2 50
Individual line, residence	1 50
Rural switching.....	33½

Dated at St. Paul, Minnesota, this twenty-seventh day of October, 1921.*

* On the same day the *Acton Telephone Company* and the *South Haven Rural Telephone Company* were authorized to increase rates for telephone service, effective November 1, 1921.

MISSOURI.

Public Service Commission.

In re APPLICATION OF THE NEW CENTURY TELEPHONE COMPANY OF STURGEON FOR AUTHORITY TO PUT IN FORCE TOLL CHARGES BETWEEN ITS EXCHANGES AT STURGEON, HALLSVILLE AND CLARK, AND CENTRALIA.

Case No. 2677.

Decided September 15, 1921.

Authorized Temporary Charges Continued for Further Period.

SUPPLEMENTAL ORDER No. 1.

It appearing that the Commission, after due investigation, and after the company named above had submitted satisfactory evidence of the necessity of the Commission allowing it to put in force a charge of 10 cents per message for messages sent over the lines of the New Century Telephone Company, of Sturgeon, Missouri, and the Home Telephone Company, of Centralia, Missouri, between the exchanges of the above-named company at Sturgeon, Hallsville and Clark, and Centralia, by its order* on the thirty-first day of August, 1920, authorized a rate of 10 cents per message, effective September 1, 1920, for a period of thirteen months, under certain terms and conditions, and,

It now appearing, further, that the company did show by its report on the basis of one year that it had not secured from the message rate allowed an unusual or excessive rate of return on the investment in the lines over which these messages were transmitted, and it further appearing to the Commission that the rates charged are not unreasonable,

It is, therefore, ordered, 1. That the New Century Telephone Company, of Sturgeon, Missouri, be permitted to continue the rates allowed to be charged in the above-men-

* See Commission Leaflet No. 108, p. 976.

tioned order* for a period of two months from October 1, 1921, to December 1, 1921, unless otherwise ordered by the Commission, at the end of which temporary period such increased rates shall cease without further notice, and the rates and charges of said New Century Telephone Company shall then be reduced and restored by it to the rates on file and charged by it previous to the effective date of the above-mentioned order;* *provided*, that the Commission may hereafter, by further order, continue such increase in rates for another and further period, or otherwise change or modify such rates and charges, either upon evidence now before the Commission, or which may be offered in this case, and for the purpose of making such changes in said rates the Commission hereby fully retains jurisdiction of this case.

Ordered, 2. That said New Century Telephone Company, of Sturgeon, Missouri, be required to keep a full and correct account of revenues and expenses received and incurred by reason of this service being furnished and to file a complete report thereof with the Commission at any time after December 1, 1921, that same may be required.

Ordered, 3. That this order shall be in full force and effect from and after this date.

Ordered, 4. That the secretary of the Commission shall forthwith serve upon the parties hereto a certified copy of this order, and that the company shall, within ten days, notify the Commission, in the manner prescribed in Section 25 of the Public Service Commission Law whether the terms of this order are accepted and will be obeyed.

September 15, 1921.†

* See Commission Leaflet No. 108, p. 976.

† On November 1, 1921, by supplemental order No. 2, the above authorized temporary charges were made the maximum lawful rates on and after December 1, 1921.

Also on November 1, 1921, by supplemental order No. 2, a charge of 10 cents per message for messages over the lines of the New Home Telephone Company and the New Century Telephone Company of Sturgeon, Missouri, to the exchanges of the latter company allowed for a temporary period was made the maximum lawful rate to be charged for such messages on and after December 1, 1921, *In re Home Telephone Company of Centralia* (Case No. 2676).

In re APPLICATION OF THE KANSAS CITY LONG DISTANCE
TELEPHONE COMPANY AND KANSAS CITY TELEPHONE
COMPANY FOR CONSENT OF THE COMMISSION PERMITTING
THE FORMER COMPANY TO TRANSFER TO THE LATTER THE
PROPERTY KNOWN AS ITS HICKMAN MILLS EXCHANGE.

Case No. 3159.

Decided October 26, 1921.

Transfer of Exchange Authorized.

ORDER.

Now on this twenty-sixth day of October, 1921, the Kansas City Long Distance Telephone Company and the Kansas City Telephone Company having presented their joint application for an order of the Commission authorizing the transfer by the Kansas City Long Distance Telephone Company to the Kansas City Telephone Company of part of the lines and system of the former known as its Hickman Mills exchange, located in Jackson County, Missouri, near Kansas City, Missouri, serving approximately 355 stations in the following described area, to wit:

Beginning at 85th Street and State Line, thence east to the Blue River, thence northeasterly along the Blue River about one-half mile, thence east along the road between sections 14 and 23 of Brooking Township for a distance of about two miles, thence one-half mile south, thence east one and three-quarters miles, thence one-half mile south, thence east two and one-half miles along the road between sections 20, 21, 29 and 28 of Brooking Township, thence south five miles to the intersection of the road between sections 15, 16, 21 and 22 of Perry Township, thence one-quarter mile west, thence one mile south, thence one-quarter mile west, thence one-half mile south, thence four and one-half miles west along the road running in an easterly direction one and one-half miles north of the Cass County Line, thence one-half mile north, thence two miles west to the State Line, thence north on the State Line to the point of beginning,

and it appearing, after hearing the facts upon said application, that said territory can best be served with telephone service by the said Kansas City Telephone Com-

pany, which owns and operates the telephone exchange in Kansas City, Missouri, and that the operation of said Hickman Mills exchange by said Kansas City Telephone Company in connection with its Kansas City, Missouri, exchange can be more economically carried on, and the service rendered thereby would be best suited to the requirements of the people located in said areas.

Ordered, 1. That the Kansas City Long Distance Telephone Company be, and is hereby, authorized to transfer to the Kansas City Telephone Company all that part of the former's telephone system located in the area above described and known as its Hickman Mills exchange, which property is more particularly described as follows, to wit:

One Monarch switchboard, 90-lines equipped, 15 trunks and such other equipment, instruments, appliances, franchises, rights and easements incident to the operation of the central office known as Hickman Mills exchange; and all furniture now located at said central office; all poles, cables, wires, guys, anchors, stubs, etc., located within the above described central office area and used for giving telephone service, which belong to the vendor company, except the toll property which is hereinafter specifically reserved.

Also one Ford car used by trouble-men.

Also the following described real estate located in Jackson County, Missouri, to-wit:

Part of lot 1 of northwest quarter of section 1, township 47, range 33, described as follows:

Beginning 504.11 north and 354.65 feet east of the southwest corner of said northwest quarter; thence north 196.39 feet; thence east 127.15 feet; thence south 210.1 feet; thence westerly to beginning, except the west 20 feet thereof.

The following described property is not to be transferred, but shall remain the property of the Kansas City Long Distance Telephone Company in said area to wit,

One pair of No. 10 iron wire known as the Kansas City-Belton circuit, together with brackets, insulators and cross-arms necessary to support the circuit on poles, and all poles, cables, wires, guys, anchors, stubs, etc., located in said area, which are used exclusively for toll purposes.

Ordered, 2. That nothing herein shall be taken or construed as a finding by the Commission as to the value of the property herein referred to for any purpose, or preclude the Commission from separating the same from the other properties of the applicant in any rate or other case that may come before it.

Ordered, 3. That this order shall take effect on the first of November, 1921, and that the secretary of the Commission shall forthwith serve upon the parties hereto a certified copy of this order, and that the Kansas City Long Distance Telephone Company and the Kansas City Telephone Company, on or before the effective date hereof, notify the Commission in the manner prescribed in Section 25 of the Public Service Commission Law, whether the terms of this order are accepted and will be obeyed.

October 26, 1921.

In re APPLICATION OF THE SOUTHWESTERN BELL TELEPHONE
COMPANY TO INCREASE RATES AT MOREHOUSE.

Case No. 3163.

Decided October 26, 1921.

Increase in Rates Authorized.

ORDER.

The Southwestern Bell Telephone Company, operating an exchange at Morehouse, Missouri, having made application to this Commission for permission to increase the rates for various classes of telephone service at its Morehouse exchange as follows:

	<i>Monthly Rates</i>	
	<i>Present</i>	<i>Proposed</i>
<i>Business:</i>		
Individual line	\$2 00	\$3 00
Extension sets	1 00	75
<i>Residence:</i>		
Individual line	1 00	1 50
Extension sets	50	50
Desk equipment, 25 cents additional.		
<i>Rural Service:</i>		
Business	1 50	2 00
Residence	1 50	1 50
<i>Service Stations:</i>		
Business	50	1 00
Residence	50	50

The application was accompanied by a petition signed by a large number of the subscribers to the telephone service asking that the increase proposed be allowed as soon as the plant had been rebuilt and other work done.

The Commission is in receipt of a letter from the city council of Morehouse in which it is stated that the work has been completed and meets with their approval, that the service is satisfactory and that they recommend that the Commission authorize the increase in rates for a temporary period. The exhibits as filed contain sufficient data showing the revenues accruing from the present rates, the revenue estimated to accrue from the proposed rates, all expenses incident to the operation of the plant and the value of the plant. No complaint having been received from the subscribers against the service or the rates as proposed, the Commission finds that the rates as proposed are reasonable and will be allowed to become effective November 1, 1921, under specified terms and conditions.

It is, therefore, ordered, 1. That the Southwestern Bell Telephone Company shall put into effect on November 1, 1921, at its Morehouse exchange, the proposed rates hereinbefore mentioned.

Ordered, 2. That any and all increases in rates herein authorized or permitted shall remain in effect for a period of thirteen months only from and after the effective date of this order, at the end of which temporary period such increases in rates shall, without further order, cease, and the rates of said company shall then be reduced and restored by said company to the rates now on file or charged by it; *provided*, that the Commission may hereafter by further order continue such increases in rates for another or further period, or otherwise change or modify the rates of said company.

Ordered, 3. That the said company be required to keep a full and accurate account of the revenues and expenses of its exchange and file a full and complete report thereof with this Commission at the expiration of one year after the effective date of this order, which report shall be in addition to any other reports required by law; and that the Commission fully retain jurisdiction of the parties and subject-matter of this cause to continue, change or modify the rates of said company upon the expiration of said period of thirteen months after the effective date of this order, or at any other time, upon the evidence and facts now before the Commission, together with such evidence as the company or any interested party may offer.

Ordered, 4. That this order shall take effect on November 1, 1921, and that the secretary of the Commission shall forthwith serve upon the parties hereto a certified copy of this order, and that the company shall on or before the effective date of this order, notify the Commission in the manner prescribed in Section 25 of the Public Service Commission Law, whether the terms of this order are accepted and will be obeyed.

October 26, 1921.

In re APPLICATION OF THE LAFAYETTE TELEPHONE COMPANY
FOR AUTHORITY TO SELL ITS PROPERTY AND FRANCHISES
TO LAFAYETTE TELEPHONE COMPANY.

Case No. 3056.

Decided October 27, 1921.

Sale of Property Authorized on Condition.

REPORT AND ORDER.

The Lafayette Telephone Company and Lafayette Telephone Company, the former a corporation owning and operating a telephone plant at Lexington, Missouri, and the latter a contemplated corporation to be organized, made joint application to this Commission on July 19, 1921, requesting it to authorize the sale and transfer of all the property and franchises of The Lafayette Telephone Company to Lafayette Telephone Company. The application sets forth that the charter of the present company will expire at an early date; that new money is needed to make additions and betterments to the plant; that it will be for the public interest that said property be transferred to the contemplated new company; that it is proposed to sell said property for a consideration of \$100,000 to be paid by the new company issuing that amount of common stock to the stockholders in lieu of the stock now held by them in the present company, said stock to be fully paid by the capitalization of properties and assets now owned by the company and to be transferred to the new company.

The case was set for hearing at the office of the Commission on July 22, 1921, the city attorney of Lexington having been duly notified of said hearing. Testimony was introduced at the hearing, including the record in case Docket No. 2663,* in which engineers for both the applicant and the Commission had filed inventories and

* See Commission Leaflet No. 119, p. 1114.

appraisals of the applicant's property. At the time of the hearing, however, the Commission had not fixed a value on the applicant's property. Since the hearing in this case the Commission has rendered its findings and issued an order in said Case No. 2663 * finding and fixing the value of the applicant's plant and property at \$85,000.

It therefore appears that the Commission can not grant the petition in this case on the terms prayed for by the applicant. However, the Commission does find that the sale prayed for should be authorized upon the condition that the consideration to be paid by the purchasing company shall not exceed \$85,000.

Therefore, being fully advised and after full consideration,

It is ordered, 1. That The Lafayette Telephone Company, a corporation, be, and is hereby, authorized to sell, assign and transfer, to Lafayette Telephone Company, when the same shall have been duly incorporated, its telephone exchange owned and operated at Lexington, Missouri, together with all franchises, rights and permits held in connection herewith; all poles, wires, switchboards and other equipment and machinery; all supplies and cash working capital; all toll lines and any and all property and assets now owned by it, for and in consideration of the sum of \$85,000. Said consideration may be paid by Lafayette Telephone Company issuing to the present stockholders of The Lafayette Telephone Company \$85,000, par value, of its common stock, when and after said company shall be duly incorporated and shall have procured an order of this Commission authorizing the issuance of said stock for said purpose.

Ordered, 2. That nothing herein contained shall be construed as approval by the Commission of the rates now charged by said parties for service, nor as a finding by the Commission that said rates are reasonable and not excessive, and not discriminatory.

* See Commission Leaflet No. 119, p. 1114.

Ordered, 3. That nothing herein contained shall be construed as a finding by the Commission that the service of said parties is adequate, efficient or sufficient.

Ordered, 4. That this order take effect on the fifteenth day of November, 1921.

October 27, 1921.*

E. C. BRANCH *et al.* v. SOUTHWESTERN BELL TELEPHONE COMPANY.

Case No. 3042.

Decided November 4, 1921.

**Application Requesting Extension and Construction of Rural Lines
Denied.**

REPORT.

E. C. Branch and 29 residents of the vicinity of Blue Springs in Jackson County, Missouri, make complaint against the Southwestern Bell Telephone Company, defendant herein, for the purpose of obtaining an order requiring the defendant to furnish telephone service to the complainants and to 21 other residents of the same locality.

Answer was duly filed by the defendant and the case was heard at Kansas City, Missouri, on the eleventh day of October, 1921, and submitted for decision upon the evidence and briefs of counsel for the respective parties hereto.

The complainants ask that the defendant be required to rebuild its lines and to install sufficient poles, wires, instruments, etc., necessary to furnish rural telephone service

* Orders authorizing the sale of property were issued in the following cases:

Cassville Telephone Exchange by J. C. Ault, Trustee, and John Wells, at Cassville. (Case No. 3152.) October 22, 1921.

Southwestern Bell Telephone Company and John Wells, at Washburn. (Case No. 3165.) October 31, 1921.

to the 50 persons, including complainants, who have filed their consent, in writing herein, to take such service at rates to be fixed by the Commission therefor.

The defendant purchased the telephone exchange at Blue Springs in 1906 and in connection therewith acquired certain rural telephone lines. One of these rural lines extended in a southerly direction from Blue Springs for a distance of 7½ miles. The defendant furnished service on this line to 4 rural subscribers connected therewith at the rate of \$1.50 per month for each subscriber. There were connected with this rural line of the defendant some 5 miles of lines owned by residents of the neighborhood. Each subscriber on the lines last named was charged 50 cents per month for switching through the exchange at Blue Springs. There were 40 service subscribers on these lines. The poles owned by the defendant on its rural line also carried 5 grounded iron wire circuits owned by the service lines' subscribers.

The gross annual revenue received by the company from its said rural line was as follows:

Rural subscribers, 4 at \$18.00.....	\$72 00
Service line subscribers, 40 at \$6.00.....	240 00
Attachments to poles, 502 at 10 cents.....	50 20
TOTAL	\$362 20

In the winter of the year 1919 the said rural line of the defendant was destroyed by a severe sleet storm and has not been rebuilt and hence this controversy. The complainants include those formerly served as rural and service lines' subscribers and others.

Since 1919 a 22,000 volt electrical transmission line has been built along the highway occupied by the defendant's rural line for a distance of 4 miles and it is now claimed that the line, if rebuilt, must be of metallic circuits instead of a grounded line, as formerly, because of interference with the telephone service which would result by induction from the electrical transmission line to a grounded telephone circuit.

The defendant refuses to reconstruct its rural line which was destroyed by the sleet storm in 1919. There is some evidence to the effect that defendant's agents did promise to reconstruct this line and that residents of the neighborhood with a view to assisting, did set up some poles. The testimony, however, shows that there is little, if anything, of value now left of the defendant's old rural line as it stood prior to 1919.

The defendant offers to permit the complainants to connect their service lines with defendant's line at the city limits of Blue Springs which is one mile from the switchboard at that place, and to charge each subscriber 50 cents per month for switching service so furnished. A witness for defendant testified that the Blue Springs exchange was not a source of profit to it and that defendant has sold or given away all its other rural lines at Blue Springs and served the rural population there by furnishing switching service to those who owned and maintained their own telephone lines.

A rule of the defendant governing extensions to rural service, is that lines will be built to serve rural subscribers when the annual revenue from the extension will equal one-third of the cost thereof.

The defendant also contends that to furnish rural service to complainants would be discriminatory and in violation of its rule as applied to other communities similarly situated. The rate charged by defendant for rural telephone service is \$1.50 per month from each subscriber for such service.

The defendant estimated that the cost of replacing the grounded circuit destroyed by the storm in 1919 would have been, at that time, \$2,350. The defendant estimated the cost of building lines and installing service to 50 persons as sought in this case to be \$8,000. The annual revenue to be received from 50 subscribers to be served was placed at \$900, upon the basis of applying the usual rate of \$1.50 per month for rural service.

The witness for defendant estimated that the annual cost of furnishing the additional telephone service sought by complainants, including depreciation and a return of 8 per cent. on the investment, would be \$2,000, or \$1,100 more than the income therefrom at the prevailing rate of \$1.50 per month.

The defendant contends that to require it to furnish telephone service to the complainants under such circumstances would be confiscation of its property in violation of the Federal and State Constitutions.

The case of *State ex rel. Ozark Power and Water Company v. Public Service Commission of Missouri*, (8 Mo. P. S. C. R. 527), is a leading authority upon the duty of a public service corporation to extend its service and also the power of the Commission to compel the performance of such a duty.

A public service corporation may be required to make reasonable extensions of its service even though such extensions do not yield the cost of the service. The losses thus brought about are to be recovered from the business of the company in its entirety.

The question here is whether the extension of service sought by the complainants is of such a character as ought reasonably to be made by the defendant under its obligation to serve the public. Subsection 2, Section 93, Public Service Commission Law.

In the year 1919 the defendant had in use 7½ miles of wire with a grounded circuit, on the rural line before its destruction. To this line were attached 4 rural subscribers and 40 service stations as set out above. This line was destroyed and conditions are now such, owing to the construction of an electrical transmission line along the route of the telephone line, that the same could not be rebuilt with a grounded circuit.

However, complainants do not seek a restoration of service to the 4 rural stations and 40 service subscribers, but ask for much more. The complainants ask that defendant be required to furnish, construct and fully equip tele-

phone lines and instruments to serve the 50 residents of this rural neighborhood south of Blue Springs. The Commission believes that the defendant has over-estimated both the cost of installing and operating the telephone extensions desired by the complainants. Yet, it is evident that at the prevailing rate of \$1.50 per month for rural service that the annual revenue to be derived from the extensions as sought would not pay operating expenses and a sufficient sum to cover reasonable depreciation and a return upon the cost of such extensions.

The prayer of the complainants is for the Commission to order the service and then fix the rates therefor, which must be in excess of \$1.50 per month, per subscriber, as shown here, if the same are to be remunerative to the defendant.

The rate of \$1.50 for monthly rural residence telephone service is charged by the defendant with few exceptions throughout the State. That fact is some evidence that such charge is about all that class of business will bear. It would serve no useful purpose to have the defendant install the telephone equipment desired unless the service could be furnished and maintained at rates comparable with what the service is worth and which subscribers can and will pay therefor. To require defendant to install and maintain the extension sought by complainants at the usual rates charged for such service throughout the State, would, in the judgment of the Commission, constitute an undue burden upon the defendant and would not constitute such a reasonable requirement as the Commission is authorized to direct.

The Commission is in full sympathy with the desire of the complainants to procure telephone service. Many rural communities are served with what are called service stations with reference to their connections with the defendant's lines. The subscribers in such cases own their own lines and equipment and connect with the defendant's lines for switching through their exchanges. Such service is usually considered necessary until telephone business of

the locality has developed to a point when it may be operated with expectation of a profit.

Under the circumstances here, it is the opinion of the Commission that the defendant can well afford to take on the lines of the complainants for switching service at a greater distance from Blue Springs than is proposed and the suggestion is here made that the controversy should be settled by concessions from defendant in that direction.

The complaint herein should be dismissed.

November 4, 1921.

A. L. WHITLOCK *et al.* v. SOUTHWESTERN BELL TELEPHONE
COMPANY AND THE MISSOURI AND KANSAS TELEPHONE
COMPANY.

Case No. 2808.

Decided November 7, 1921.

**Request for Connection of Toll Line with Farmers' Line Switchboard
Refused — Mutual Company Not Furnishing Service for
Hire Not Within Jurisdiction of Commission.**

REPORT.

On November 26, 1920, A. L. Whitlock, manager of the Pleasant Hope Line No. 1, Wm. Stivers, president Pleasant Home Line No. 2; W. T. Putnam, president the Hickory Barrens Southern Line, C. H. Moore, president the Carter Line, L. C. Clarkson, president, all of Greene County, Missouri, petitioners, filed their application with the Commission reciting that they and a number of other rural line subscribers had purchased and installed a telephone switchboard in the residence of Frank Jones, which residence was located about 6½ miles north of Springfield, Missouri; that they had 5 rural telephone lines serving 62 subscribers and connected with other lines, and they desired the Southwestern Bell Telephone Company to extend

its toll line from what is known as "Jones' Switch," a distance of about one-half mile, and connect the same with their switchboard. The Southwestern Bell Telephone Company on December 2, 1920, filed its answer, in which it stated that the Missouri and Kansas Telephone Company and the Southwestern Bell Telephone Company are one and the same and that they had for twenty years maintained a No. 9 metallic circuit to Springfield through a switchboard in the residence of Mrs. Fannie Jones, which was known as "Jones' Switch," and denied the right to be ordered to extend its lines one-half mile to the residence of Frank Jones.

About August 6, 1921, the complainants filed a reply. Before the receipt of the reply from the applicants the case was set for hearing before a member of the Commission at Springfield, Missouri, on February 4, 1921. At this time the attorneys for the complainants and the defendant filed with the Commission a stipulation in which they agreed that the case was to be continued by consent of the parties pending a settlement by contract mutual to the interests of all parties. Being unable to reach an agreement, the case was set down for hearing before Special Examiner Johnson at Springfield, Missouri, on September 26, 1921, at 10 A. M., at which hearing the applicants and the Southwestern Bell Telephone Company were represented by counsel. Testimony was taken and permission was given both sides for the filing of briefs before November 1, 1921. Neither side has filed briefs. The case will therefore be decided upon the testimony as introduced at the hearing.

THE FACTS.

About seventeen years ago there was installed in the residence of Mrs. Fannie Jones a small switchboard. Mrs. Jones' residence is located about 6 miles north of Springfield, Missouri. The Southwestern Bell Telephone Company owns a No. 9 metallic toll line connecting the switchboard in Mrs. Jones' residence with the exchange switchboard at Springfield, Missouri. Mrs. Jones furnished a

switching telephone service to a number of rural line subscribers, they owning and maintaining all of the lines and equipment outside of her residence. Ten lines were connected with the board, which furnished service to in the neighborhood of 100 subscribers. A day and night service was given.

During the early part of the year 1920, Mrs. Jones decided to increase the rates charged for switching service, which at that time was 75 cents per annum, per subscriber, located on lines that connected with the switchboard in her residence and also with a switchboard located at some other point. The rate that she decided to charge for this class of service was \$1.50 per annum. And on lines that connected with the switchboard in her residence only, and for which she had been charging \$1.00 per annum, per subscriber, she intended raising the rate to \$2.00 per annum. A written notice was sent to the president of each of 8 of the 10 lines connected with her switchboard. Part of the subscribers agreed to pay the amount and remain on her switchboard. Three of the lines refused to pay, although part of the subscribers on the lines did remain, while the others going with the two lines that disconnected from the Jones' Switch purchased a small switchboard and installed the same in the residence of Frank Jones, which was located about one-half mile north of the residence of Mrs. Fannie Jones. This left 8 lines and one toll line with 66 paying subscribers connected with the switchboard in Mrs. Fannie Jones' residence.

The testimony shows that in addition to the 75 cents per annum and \$1.50 per annum charged for switching service, it had been the custom for each subscriber to occasionally furnish one set of batteries for use of the switchboard. The subscribers on the lines that had installed the switchboard in the residence of Frank Jones then requested the district manager of the Southwestern Bell Telephone Company at Springfield, Missouri, that the line be extended to the Frank Jones' switchboard and offered to pay the expense that would be incurred in such exten-

sion. The district manager refused to recommend the extension. These subscribers then stated that the service that had been furnished them had been poor. The testimony at the hearing did not show or prove that the service had been poor. The testimony of the officials of the Southwestern Bell Telephone Company, and in fact the testimony of the witnesses for the applicant, showed that the service as furnished by Mrs. Jones is above that ordinarily furnished by small companies of this character, and the rates as asked are unusually low.

The subscribers on the lines connected with the Frank Jones' switch also reach the switchboard at Ebenezer switch. There are two such lines. Messages can be sent to Springfield over these lines at rates the same as if sent over the switchboard in the residence of Mrs. Fannie Jones.

Mrs. Jones also testified that the receipts for toll line messages sent by the subscribers on the two lines that severed connection with her board amounted to only \$1.90 during the months of March and April, 1920, the last two months during which service was furnished them.

Her total receipts at the present time for operating the switchboard are \$2.00 a year from each of 35 subscribers and \$1.50 a year from each of 31 subscribers, or \$116.50 a year; that the toll revenue amounts to from \$8.00 to \$10.00 per month and that her revenue is 25 per cent. of this amount, \$2.50 per month, or \$30.00 per annum, so that her total annual revenue from all sources is about \$146.50.

No request was ever filed by Mrs. Jones with the Commission asking permission to increase the rates for service. In fact no rate sheet or report has ever been filed by her with this Commission.

Through the connection made over switchboards reached by the rural lines connected on her board, Mrs. Jones was able to furnish a free service over practically the entire county.

The establishment of the second switchboard has not added any additional advantage to the telephone sub-

scribers. No new subscribers are reached and no new towns connected.

The Commission is of the opinion that the Southwestern Bell Telephone Company should not be compelled or ordered to connect its lines with the switchboard in the residence of Frank Jones. Undoubtedly operating difficulties would be encountered if this second connection were to be established. In addition to the above the applicant company is a strictly mutual telephone company organized by a number of subscribers and for their mutual benefit only, and does not furnish a telephone service for hire, and is therefore not under the jurisdiction of this Commission. (See *State ex rel. Buffum Telephone Company v. Public Service Commission*, 272 Missouri 627.)* The application is, therefore, denied and the case dismissed.

An order in accordance with the above will issue.

ORDER.

This case being at issue upon the application and answer, and having been duly heard and submitted and the Commission having made a report in writing which contains its findings and conclusions herein, which is hereby referred to and made a part hereof,

It is, therefore, ordered, 1. That the application herein be, and the same is hereby denied and the case dismissed.

Ordered, 2. That this order shall be in force on and after ten days from the date hereof.

Ordered, 3. That the secretary forthwith serve a copy of the report and order herein upon attorneys of record for the complainants and the defendant.

November 7, 1921.

* See Commission Leaflet No. 52, p. 1095.

In re APPLICATION OF THE KANSAS CITY TELEPHONE COMPANY FOR INCREASED RATES FOR UNIFIED SERVICE IN FAIRMOUNT EXCHANGE AREAS.

Case No. 2654.

Decided November 16, 1921.

Charge for Directory Listing Reduced.

SUPPLEMENTAL REPORT AND ORDER.

On the eighteenth day of December, 1920, the Commission entered an order * in this case prescribing high maximum telephone rates to be charged for service at its Fairmount exchange, which is situate between the cities of Kansas City and Independence, in this State.

Under the terms of that order * free service was afforded to the subscribers at the Fairmount exchange to Independence and a toll charge of 5 cents was imposed between the Fairmount exchange and Kansas City.

A number of residents of Fairmount filed a complaint, asking that the patrons of the Fairmount exchange be given free service to Kansas City and that the same rate or a lower rate than prescribed by the Commission at the time aforesaid be fixed to cover exchange service at Fairmount, including service to Kansas City.

Hearing was held at Kansas City, Missouri, on the twelfth day of October, 1921, the evidence was directed against the practice of charging a toll of 5 cents between the Fairmount exchange and Kansas City.

The company serves 1,200 subscribers at its Fairmount exchange. It is conceded that a large majority of the patrons of the Fairmount exchange would prefer to have service at the rates now charged with free service to Independence and a 5-cent toll charge to Kansas City than to pay the Kansas City exchange rate and to have unlimited free service between Fairmount and Kansas City.

* See Commission Leaflet No. 110, p. 1857.

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The suggestion is made that those who desire service to Kansas City should pay a higher flat rate than those who do not desire such service. The company insists that such a course is not practicable and under the showing made at this time the Commission is not prepared to hold to the contrary.

The practice of the company at present for listing those at Fairmount in the Kansas City directory is to list the names of those living at Fairmount at 50 cents per month for each subscriber. There is also printed in the Kansas City directory opposite the name of a Fairmount subscriber so listed therein, the words "see suburban," which enables a subscriber in Kansas City to readily locate and call a patron of the Fairmount exchange upon the payment of a 5-cent toll charge therefor.

The Commission will permit a continuance of this practice but holds that the charge for listing the name of a Fairmount subscriber in the Kansas City directory should not exceed 25 cents per month.

Accordingly,

It is ordered, 1. That the defendant, the Kansas City Telephone Company, shall not charge in excess of 25 cents per month for listing in its Kansas City directory the name of patron of the Fairmount exchange.

Ordered, 2. That this order shall be in full force and effect on and after ten days from the date hereof.

Ordered, 3. That copy of this order be served upon the Kansas City Telephone Company and J. H. Kinley, attorney for the complainants.

Ordered, 4. That the Kansas City Telephone Company notify the Commission within ten days whether the terms of this order are accepted and will be obeyed.

Dated at Jefferson City, Missouri, this the sixteenth day of November, 1921.

In re SUSPENSION OF RATES OF THE ETHEL TELEPHONE
COMPANY.

Case No. 1900.

Decided November 18, 1921.

Temporary Rates Made Maximum Lawful Rates.

ORDER.

It appearing that the Commission, after due investigation, and after the company named above had submitted satisfactory evidence that certain of its rates for telephone service, charged at its exchange at Ethel, Missouri, were inadequate, unjust and unreasonable, did, by its order * in the above-entitled case, on the sixteenth day of September, 1919, permit the said company to put certain increased rates into effect for a temporary period, under certain terms and conditions, and,

It further appearing that the Commission, by its order † issued on the sixteenth day of October, 1920, allowed said increased rates to be continued for a further temporary period, under certain terms and conditions, and,

It now appearing further, that the company did show by its verified report, on the basis of one year, that its revenues from operation had been sufficient to pay a not unreasonable or high rate of return on the investment, and it appearing that the operating costs of the company have not been materially reduced during the period covered by the above-named report,

Therefore, it is ordered, 1. That the rates allowed by the Commission in the above-mentioned orders be, and the same are hereby, authorized as the maximum lawful rates to be charged for telephone service at the Ethel Telephone Company exchange at Ethel, Missouri, on and after December 1, 1921, unless otherwise ordered by the Commission.

* Noted in Commission Leaflet No. 96, p. 153.

† Noted in Commission Leaflet No. 108, p. 975.

Ordered, 2. That this order shall be in full force and effect from and after this date.

Ordered, 3. That the secretary of the Commission shall forthwith serve upon the parties hereto a certified copy of this order, and that the company shall within ten days, notify the Commission, in the manner prescribed in Section 25 of the Public Service Commission Law, whether the terms of this order are accepted and will be obeyed.

November 18, 1921.*

In re SUSPENSION OF RATES OF THE MUTUAL TELEPHONE
COMPANY FOR ITS EXCHANGE SERVICE AT GREENFIELD.

Case No. 2763.

Decided November 18, 1921.

Rates as Authorized Continued in Effect for Further Period.

SUPPLEMENTAL ORDER No. 2.

It appearing that the Commission, after due investigation, and after the company named above had submitted satisfactory evidence that certain of its rates for telephone service, charged at its exchange at Greenfield, Missouri, were inadequate, unjust and unreasonable, did, by its order† in the above-entitled case, on the fourth day of November, 1920, permit the said company to put certain increased rates into effect for a temporary period, under certain terms and conditions, and,

It now appearing further, that the company did show by its verified report, on the basis of one year, that its revenues from operation had been sufficient to pay a not unreasonable or high rate of return on the investment,

* On November 16, 1921, a similar order was entered, *In re El Dorado Springs Telephone Company* (Case No. 2060).

† See Commission Leaflet No. 109, p. 1372.

and it appearing that the operating costs of the company have not been materially reduced during the period covered by the above-named report,

Therefore, it is ordered, 1. That the Mutual Telephone Company, at Greenfield, Missouri, be permitted to continue the rates allowed to be charged, in the above-mentioned order,* for a further period of thirteen months, from December 4, 1921, to January 4, 1923, unless otherwise ordered by the Commission, at the end of which temporary period such increased rates shall cease without further notice, and the rates and charges of said Mutual Telephone Company shall then be reduced and restored by it to the rates on file and charged by it previous to the effective date of the above-mentioned order;* *provided*, that the Commission may hereafter, by further order, continue such increase in rates for another and further period, or otherwise change or modify such rates and charges, either upon evidence now before the Commission, or which may be offered in this case, and for the purpose of making such changes in said rates the Commission hereby fully retains jurisdiction of this case.

Ordered, 2. That said Mutual Telephone Company, of Greenfield, Missouri, be required to keep a full and correct account of revenues and expenses of its exchange, and file a full and complete report thereof with the Commission at the expiration of a twelve-months' period from December 4, 1921, which report shall be in addition to any other reports required by law.

Ordered, 3. That this order shall be in full force and effect from and after this date.

Ordered, 4. That the secretary of the Commission shall forthwith serve upon the parties hereto a certified copy of this order, and that the company shall, within ten days, notify the Commission, in the manner prescribed in

* See Commission Leaflet No. 109, p. 1372.

Section 25 of the Public Service Commission Law, whether the terms of this order are accepted and will be obeyed.

November 18, 1921.*

In re SUSPENSION OF RATES OF THE FRANKFORD TELEPHONE
EXCHANGE.

Case No. 2637.

Decided November 28, 1921.

Increase in Rates Authorized.

SUPPLEMENTAL ORDER No. 1.

It appearing that the Commission, after due investigation, and after the company named above had submitted satisfactory evidence that certain of its rates for telephone service, charged at its exchange at Frankford, Missouri, were inadequate, unjust and unreasonable, did, by its order† in the above-entitled case on the fourteenth day of October, 1920, permit the said company to put certain increased rates into effect for a temporary period under certain terms and conditions, and,

It now appearing, further, that immediately after the issuing of the order the subscribers affected by the increase formed a company and purchased the telephone property and shortly thereafter resold the same to J. R. Wright, the present owner, and the farmers' committee

* Similar orders were issued in the following cases:

United Telephone Company. (Case No. 2720.) October 22, 1921.

Southwestern Bell Telephone Company, at Kirksville. (Case No. 2352.)
October 29, 1921.

Kinloch Telephone System, at St. Louis. (Case No. 2174.) November 9,
1921.

Sedalia Home Telephone Company. (Case No. 2175.) November 9, 1921.

Linneus Rural Telephone Company. (Case No. 2765.) November 12,
1921.

Madison Telephone Company. (Case No. 1917.) November 14, 1921.

New London Telephone Company. (Case No. 2636.) November 16, 1921.

† See Commission Leaflet No. 109, p. 1355.

through which the purchase and sale had been made agreed that after the new owner had operated the plant for a few months they would allow an increase in the Class A or switching rate of \$1.00 per year, provided the report which the Commission had asked for in its order* of October 14, 1920, showed that an increase was necessary.

The report in question, as submitted by the company, shows that a deficit actually exists and the Commission being in receipt of a letter signed by twelve persons, residents and shareholders in the rural telephone lines, recommending that the increase in rates from \$4.00 to \$5.00 per annum on Class A switching service be allowed, and the report above-mentioned, as filed by the telephone company, showing that the increased rates will not allow an unreasonable or high rate of return, and due notice having been given the public of the proposed increase by advertising in the local papers, and no protest having been received.

Therefore, it is ordered, 1. That the schedule filed by the Frankford Telephone Exchange for its exchange at Frankford, Missouri, be approved and the company be allowed to put in force on December 1, 1921, on one day's notice, the rates contained therein, as follows:

	<i>Per Month</i>
Business, direct line	\$2 00
Business, two-party line	2 00
Residence, direct line	1 50
Residence, two-party line	1 50
Residence, four-party line	1 25
Extension sets	50
Additional charge for desk set equipment, business or residence	25
Mileage charge beyond initial rate area, per quarter mile....	25
Vacation rate, one-half regular rate.	

* See Commission Leaflet No. 109, p. 1355.

Moving charge:

Instrument moved within room or within the building..	\$0 50
Instrument moved outside the building.....	1 00
Non-subscribers making calls outside the city limits.....	05

Rural or Farm Line Service:

Per Annum

Class A, switching	\$5 00
Class B, service	15 00
Class C, service	7 00
Class D, service	12 00

Where Class A subscriber is on a through line as Class A, the rate is \$5.00 per year, with \$1.00 credit if line is in service condition for through service.

Rents Due and Payable:

Rural, each quarter in advance; all collections to be made by designated officer of each line on first day of month following service. Service may be refused any line on which there are delinquents or non-paying subscribers.

Privilege reserved to discontinue service on lines which are not in serviceable condition after thirty days' notice to the president of such line.

Ordered, 2. That any and all increases in rates herein authorized shall remain in force and effect for a period of thirteen months only, at the end of which period such increases in rates and charges, without further notice, shall cease, and the rates and charges hereby authorized to be charged by said company shall then be reduced and restored by said company to the rates now on file and charged by it at the present time; *provided*, that the Commission may hereafter, by further order, continue such rates and charges for another and further period, or, within said period of thirteen months, may otherwise change, modify or reduce such rates and charges upon the evidence now before the Commission, or upon such other evidence as may be introduced before the Commission, and for this purpose the Commission fully retains jurisdiction of this case.

Ordered, 3. That said Frankford Telephone Exchange be required to keep a full and accurate account of the revenues and expenses of its exchanges and file a full and

complete report thereof with this Commission at the expiration of one year after the effective date of this order, which report shall be in addition to any other reports required by law.

Ordered, 4. That this order shall take effect on December 1, 1921, and that the secretary of the Commission shall forthwith serve upon the parties hereto a certified copy of this order, and that the company shall, on or before the effective date of this order, notify the Commission, in the manner prescribed in Section 25 of the Public Service Commission Law, whether the terms of this order are accepted and will be obeyed.

November 28, 1921.

In re APPLICATION OF THE DAWN TELEPHONE COMPANY TO
INCREASE RATES, AND THE SUSPENSION OF THE SAME.

Case No. 3113.

Decided November 28, 1921.

Suspension Order Set Aside — Increase in Rates Authorized.

REPORT.

On September 2, 1921, J. M. Decker, as owner and manager of the Dawn Telephone Company located at Dawn, Missouri, hereinafter referred to as applicant, filed with the Commission his P. S. C. Mo. No. 3, cancelling his P. S. C. Mo. No. 2, the new schedule so filed being a proposed increased rate for applicant's telephone exchange and was to be effective October 1, 1921. The new proposed schedule provided for the following charges:

<i>Exchange Classification:</i>	<i>Rate Per Annum</i>
Business, direct line, Class B.....	\$18 00
Business, direct line, Class D.....	15 00
Residence, direct line, Class B.....	15 00
Residence, direct line, Class D.....	9 00

Moving Charge:

Instrument moved within the room or style of instrument changed	50
Instrument moved within the building.....	50

Rural Service:

Class A, switching	6 00
Class B, residence	12 00
Class D, residence	9 00

General:

Charge for installation of new subscriber, actual expense.

By way of explanation, Class B subscribers in the town are furnished service over line and equipment owned entirely by the telephone company. Class D subscribers in the town are furnished service over lines owned by the telephone company, the subscriber owning and maintaining the telephone instrument.

Upon publication of the new proposed schedules by applicant as required, protest against same having been received, the Commission by its order duly entered on September 7, 1921, suspended the operation of the rates contained in said proposed schedule for a period of one hundred and twenty days to January 4, 1922, unless otherwise ordered by the Commission.

Thereafter, on October 19, 1921, due notice having been previously given to all interested parties, this cause was heard before a special examiner at Chillicothe, Missouri.

No protest or objection to the proposed business or residence rate was offered, but a number of the subscribers of the rural lines were present with their attorney and protested against the increase.

It appears that during the early part of the present year a number of complaints were received by the Com-

mission from various subscribers of applicant's telephone exchange, complaining against the service, which resulted in the Commission sending its telephone expert to Dawn to make a personal examination of the exchange and the cause of the trouble.

On May 11, 1921, he made report to this Commission furnishing applicant with a copy thereof, pointing out a number of changes and improvements that should be made, including the installation of a new telephone switchboard. Applicant fully complied with the requirements made in that report. Protestants concede that the switchboard and other equipment at applicant's exchange is in good condition and in satisfactory working order but insist they are often unable to get service over the rural lines by reason of being unable to get applicant's central office and proper switching connections, which they charge to the neglect or refusal of applicant and his operators. They further charge that the proposed rates are excessive and unreasonable.

The rural lines are owned and maintained by mutual companies and applicant has nothing whatever to do therewith, except to switch its members.

That patrons on the rural lines experienced much difficulty, is not to be doubted but from the testimony, it appears that their inability to get service is due to defects in their own system and not attributable in any wise to applicant, his operators or defects in his equipment.

The present rates and charges now received by applicant are as follows:

Exchange Service:

Business, direct line, Class D.....	\$12 00
Business, direct line, Class B.....	15 00
Residence, direct line, Class D.....	8 00
Residence, direct line, Class B.....	15 00

Rural Service:

Class A, switching	\$5 00
Class B, residence	12 00
Class D, residence	8 00

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which yields him approximately \$1,694 annually. Under the proposed rates and schedule, his exchange will yield him approximately \$1,929 annually, or an increase in revenue of \$235. His annual expenses have been \$1,710. His future expenses for labor, material, general expenses, including rent, light, heat and the like, will be \$2,100 annually, by reason of an increased operating expense of \$190 and the laying aside of \$200 annually as a reserve for depreciation, which reserve is approximately 5 per cent. on investment.

The proposed increase in rates will still yield an insufficient sum to properly carry on the business and set aside the usual reserve, to do which would create an operating deficit of \$171, and as a whole the rate is still less than is generally received for like service.

The proposed rate of \$6.00 for Class A rural switching charges which was about the only real objectionable proposed rate, is the standard charge for this service and so generally recognized by telephone exchanges.

Applicant, at a considerable outlay of expense, has complied with the order of this Commission, including the installation of a new and modern switchboard, and has put his telephone exchange in proper working condition, and the Commission feels that in the main he should be allowed the proposed rates.

No charge will be allowed for installation of new subscribers, but applicant should be allowed to make the following charges:

	Rate Per Month	Rate Per Annum
<i>Business Stations:</i>		
Direct (single) line, B.....	\$1 50	\$18 00
Direct line, D	1 25	15 00
<i>Residence Stations:</i>		
Direct (single) line, B.....	1 25	15 00
Direct line, D	75	9 00
<i>Moving Charge:</i>		
Instrument moved within the room or style of instrument changed		50
Instrument moved within the building.....		50

Rural or Farm Line Service:

A. If subscribers furnish and maintain the instrument, wire, pole and other necessary equipment, the rate of	6 00
B. If the telephone company furnishes and maintains instrument, wire, poles and other necessary equipment, the rate of	12 00
D. If the subscriber furnishes and maintains the instrument and the telephone company furnishes and maintains the wire, poles and other necessary equipment, the rate of	9 00

which will be allowed for thirteen months from January 1, 1922.

An order will issue accordingly.

ORDER.

This case being at issue upon the order of the Commission suspending the effective date of the Dawn Telephone Company's Schedule P. S. C. Mo. No. 3, cancelling its P. S. C. Mo. No. 2, for an investigation of the reasonableness of the rates therein provided for, and full investigation thereof having been made at a public hearing held at Chillicothe, Missouri, on October 19, 1921, and the Commission having this day made and filed its report herein, which report is hereby referred to and made a part hereof, now, after due deliberation,

It is ordered, 1. That the order of the Commission in this case made and entered on September 7, 1921, be, and the same is hereby, set aside and for naught held.

Ordered, 2. That the rates provided for in said company's P. S. C. Mo. No. 3, cancelling its P. S. C. Mo. No. 2, be, and they are hereby, permitted to become effective on and after January 1, 1922, upon the conditions hereinafter set out.

Ordered, 3. That any and all increases in rates herein authorized or permitted shall remain in effect for a period of thirteen months from and after the effective date of the

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schedule named herein, at the end of which period such increases in rates shall, without further order, cease, and the rates of said company shall then be reduced and restored by said company to the rates now on file or charged by it; *provided*, that the Commission may hereafter by further order continue such increases in rates for another or further period or otherwise change or modify the rates of said company.

Ordered, 4. That the said company be required to keep a full and accurate account of the revenues and expenses of its exchange and file a full and complete report with this Commission at the expiration of one year after the effective date of the proposed schedule, which report shall be in addition to any other reports, required by law; and that the Commission fully retain jurisdiction of the parties and subject-matter of this case to continue, change or modify the rates of said company upon the expiration of said period of thirteen months after the effective date of such rates, or at any other time, upon the evidence and facts now before the Commission, together with such other evidence as the company or any interested party may offer.

Ordered, 5. That this order shall be in full force and effect on and after January 1, 1922, and that the secretary of the Commission shall forthwith serve a certified copy of this order upon J. M. Decker, owner and manager of the Dawn Telephone Company, and all other interested parties, and that the company shall notify the Commission on or before the effective date of this order, in the manner prescribed in Section 25 of the Public Service Commission Law, whether the terms of this order are accepted and will be obeyed.

November 28, 1921.

NEBRASKA.

State Railway Commission.

In re **SERVICE CONNECTION CHARGES BY TELEPHONE COMPANIES IN NEBRASKA.**

Resolution No. 50.

Decided October 26, 1921.

Service Connection Charges Held Essential to Maintenance of Proper Service — Service Connection Charges Continued Permanently in State — Charge for Change of Name to be Made Against General Maintenance Fund — Charge .. for Inside Moves to be Made Against Subscriber — Sliding Scale of Charges Preferred to Flat Rate Throughout the State — Charges for Installation, Moves, and Changes Established.

During the period of federal control the Postmaster General placed in effect an installation charge of \$3.50, a charge for move or disconnect of \$3.00, a charge for an inside move of \$1.50 and for supersede or change of name of \$1.50, which charges at the end of the period of federal control were continued by the Commission pending a consideration of the principles involved and the determination of reasonable charges for such services.

The Commission discussed the reasons for the charges under consideration and classified the justification for installation charges under three heads, (a) to meet the cost of installations which were necessarily incurred, but which could not be capitalized, (b) advance payments to cover the labor of removal of the telephone at some future date, and to cover also the loss of material which would accompany such removal, and (c) a deterrent against the ordering of telephone service by persons whose need for such service would be of short duration.

In its opinion the Commission stated that the uncapitalized costs included the making of the records in the various departments handling the work in the larger cities, the working out of any usable form of data for directories, and also the working out of data for the information departments maintained by the companies.

Loss by reason of removals, the short time user, the various forms of service connection charges, charges for moves and changes, the question as to whether service connection charges should be on a flat rate basis

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throughout the State or on a sliding scale, were each taken up and given careful consideration by the Commission.

Held: That a close check on the telephone companies of the State clearly indicated that such revenues as were being received from the service connection charges were essential to the maintainance of proper service, and further were essential if additional increases in rates for service were to be avoided;

That service connection charges should be continued permanently in the State, but that these charges should be graded, in that the rate for business telephones should be higher than that for residence telephones, as the record showed that business service was more unstable than residence service; also that the rates should be higher in cities where the turnover was greatest and where the plants were most complicated, inasmuch as the greater the complication the greater the cost of keeping the records and of making the changes;

That some differential should exist as to the service connection charge where the instrument was not in place but inside wiring and drop were in position as compared with an original installation charge;

That where the instrument was in place, but lapse of service had occurred, the subscriber should be required to pay the same service connection charge as he would pay where the premises had been wired but where the telephone had to be reconnected or reinstalled; that the subscriber should, however, be given the option to pay for the lapsed period of service, and then be considered in the same category as a supersede or change of name transfer;

That while there was doubt in the mind of the Commission as to whether or not the expense of changing the office records and making an inspection of the instrument and wiring in the case of a supersede or change of name, and the making of such minor repairs as might be essential, was properly a maintenance expense, yet the Commission nevertheless arrived at the conclusion that the charge for this particular service should be made against the general maintenance fund;

That a charge for the entire cost of an inside move plus a reasonable overhead and profit should be made against the subscriber requiring such move; that the Commission would therefore recommend a rule placing against the subscriber causing the inside move, the entire cost thereof, plus a reasonable profit;

That from a consideration of the uncapitalized costs and of the deterrent factor, which latter was an important consideration, the Commission was of the opinion that sliding scales were more to be desired than a flat charge such as had been placed in effect by the Postmaster General;

That effective December 1, 1921, all telephone companies in the State of Nebraska should be authorized and directed to make the following service connection charges: where it is necessary to install instruments, drop and wiring, Omaha, business, \$5.00, residence and rural, \$3.50;

Lincoln, business, \$4.00, residence and rural, \$3.00; 1,000 subscribers or over, business, \$3.00, residence and rural, \$2.00; 600 to 1,000 subscribers, business, \$2.50, residence and rural, \$1.75; less than 600 subscribers, business, \$2.00, residence, \$1.50.

Where drop and inside wiring is in place, Omaha, business, \$3.50, residence and rural, \$2.50; Lincoln, business, \$2.75, residence and rural, \$2.00; 1,000 subscribers or over, business, \$2.50, residence, \$1.50; 600 to 1,000 subscribers, business, \$2.00, residence, \$1.25; less than 600 subscribers, business, \$1.50, residence, \$1.00; also other rules and charges as set out at length in the order.

FINDINGS.

The immediate cause of this investigation was government control of telephone companies during the late war. The Postmaster General in August, 1918, soon after the President took over control of wire companies, inaugurated a series of charges for installation of telephones, disconnects of telephones, change of name, or supersedes, and inside moves. This first order was primarily for the purpose of discouraging telephone development as a war measure. In November, 1918, the Postmaster General amended the order and put into effect a rate of \$3.50 installation charge, the same amount for a move or disconnect, \$3.00 for an inside move and \$1.50 for supersede or change of name. These rates remained in effect until the end of the period of federal control and were thereafter extended * by action of this Commission for a period during which careful consideration of the principles and rate levels might be given.

To that end a hearing was called in the early winter of 1919-1920 for the purpose of considering whether to continue some sort of service connection charges, and, if so, at what rates the continuance should be authorized. Elaborate exhibits were presented by the Nebraska Telephone Company, predecessor of the Northwestern Bell Telephone Company of Nebraska at the time of this investigation. Less elaborate studies were presented by the Lincoln Telephone and Telegraph Company and a very con-

* See Commission Leaflet No. 93, p. 1010.

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siderable number of independents presented their views with more or less fragmentary data. The Nebraska Telephone Company proposed a new set of service connection charges, as follows :

	<i>Business</i>		<i>Residence</i>	
	<i>Instru- ment in Place</i>	<i>Instru- ment Not in Place</i>	<i>Instru- ment in Place</i>	<i>Instru- ment Not in Place</i>
Omaha	\$3 00	\$5 00	\$2 00	\$3 50
Common battery exchanges, 2,000 subscribers plus.....	2 00	3 00	1 50	2 00
Common battery exchanges, 2,000 subscribers minus.....	1 75	2 50	1 25	1 75
All magneto exchanges.....	1 50	2 00	1 00	1 50
P. B. X. trunks, same as instrument not in place.				
P. B. X. stations, each.....				\$1 00
Inside move from room to room.....				2 00
Inside move within one room.....				1 00
Changing type of equipment.....				2 00

Private branch switchboards to be handled under special provisions, and supersedes in telephone service where no lapse of service occurs to be on the same basis as when there has been a lapse of service, viz.: the charge for instrument in place.

The Lincoln Telephone and Telegraph Company mildly opposed the proposition of the Nebraska Telephone Company and asked that existing rates for service connections be continued, this attitude being governed by revenue considerations alone. The independents, for the most part, favored the contention of the Lincoln company, although one or two did not favor the continuation of the service connection charges.

For several years before the Postmaster General tried out his theories of operating telephone companies, the Nebraska Commission had favored some sort of an installation charge which would protect both the company and the longtime subscribers against the heavy expense of the shifting telephone population. It had authorized a number of companies in the State to publish and collect an installation charge of \$2.00. This figure was arrived at



not after particular studies as to costs involved which might not be capitalized, but rather for deterrent effects. These orders provided that the installation payment should finally be absorbed by the telephone company on the theory that the rental rate included the cost of an occasional move.

Obviously this theory, on which the earlier orders of the Commission were bottomed, has not been tenable for a number of years. Cost of operation mounted so rapidly that net earnings were rather uncertain even when aided by the extra collections made for installations and moves, such collections never being refunded. Had the theory applied by the Nebraska Commission in the early days been followed and these refunds been allowed, the companies would have been in more serious financial condition. In fact, increases in rates would have been generally necessary beyond the points where they were set.

Action by the Commission, following the investigation, was purposely delayed. Close check on the telephone companies of the State generally indicated clearly that such revenues as were being received from the service connection charges were essential to the maintenance of proper service, and further essential if additional increases in regular rates were to be avoided. That condition is not entirely past yet. There are, however, hopeful signs on the horizon. The prices of poles have reluctantly been reduced. Such common labor as is needed by telephone companies is now cheaper. Cost of operating automobiles has gone down and it is not a wild guess that the tenacious manufacturers of batteries, telephone instruments and switchboard equipment will, in the near future, be required by competitive conditions to make some reductions in prices. These signs have led the Commission to take up for disposition the question of service connection charges, which charges since the return of wire properties to their owners by the government, have been made under temporary authority.

In the telephone business the installation of a new instrument, or the moving by a subscriber from one location to another, is accompanied by peculiar expenses not realized by any other public utility. When a new customer is acquired by an electric light or gas company a meter is installed and the wiring or piping is furnished by the householder. A particular account is opened and the transaction of acquiring the new customer is ended. No one except the company and the customer is interested. The service is tapped on to a main channel over which the commodity is sent to divers other customers. When a customer moves from one location to another the process at the central office simply involves the customer and the company. With the telephone business it is quite different. Everybody in the community is potentially interested in what every other subscriber does with his telephone. The new subscriber requires a complete little plant all his own, a miniature switchboard, a distribution system from his property to the central office, and an individual instrument. In place of a few large trunks over which electric current is passed at high pressure, or large gas or water mains through which the service is furnished to a large number, each single line telephone subscriber must be individually taken care of throughout the whole distance from central plant to residence. This requires a greatly complicated record keeping.

Then, too, when John Smith installs a telephone not only he and the company are interested but everybody who may have occasion to talk to John Smith, and the telephone company must have such records as will enable it promptly to satisfy the demands of all those who desire to talk to John Smith. If John Smith moves from one location to another the whole community is potentially interested in that fact and the telephone company, serving that community in its peculiar and particular field, must stand ready to furnish the necessary information as to what telephone service John Smith now has and to do so in a large exchange requires very complicated cross-

indexing, quickly available to each of the departments on which the public may have occasion to call by reason of the action of John Smith.

In years gone by the expenses incident to the keeping of these records have been paid out of the general funds; that is, all subscribers paid a percentage of the total bill for this purpose regardless of the amount of expense incurred by each of them in this keeping and changing of records. There was no particular segregation of expenses. The public was somewhat careless and that carelessness added to the operating costs and made rates higher than would otherwise have been necessary. Temporary disconnects during vacation, or temporary removal of telephones in fits of pique, meant but little to the subscriber because they cost that particular subscriber nothing. The whole body of subscribers paid the bill.

The necessity for some corrective measures was seen by the Nebraska Commission when it authorized certain service connection charges. These charges, as has been said, were not for the purpose of paying segregated parts of the record keeping, but rather to put the brakes on whimsical actions on the part of subscribers which might be avoided without serious inconvenience to the subscribers, and if not avoided might be paid in part by those causing the expense. More careful consideration of corrective measures was brought about by the rapidly mounting costs of operation. No student of telephone finances in the last few years is unaware that these costs outstripped the increases in revenues either by advances in rates or by rates and larger volume combined. It was necessary to perfect economies. Thus came into existence more complete service connection charges which would, in part, provide revenues to offset specific costs, the revenues to come from those causing the costs; in part, to produce economies by still further discouraging unnecessary expenses.

It has not been easy for the public to accommodate itself to the experience of paying service connection charges,

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largely because for almost two decades these services have been without cost. It would be easier to appreciate the value of the service connection charges during the period of the war if it could be understood that had not these additional sources of revenue been presented the rates for general service would have been necessarily so much higher than they have been.

The rather refined rules of service connection charges, as now in effect, include (a) certain costs where service is installed for the brand new subscriber, or for the subscriber who is new in the particular locality; (b) temporary disconnects or removes of telephone instrumentalities on the premises while occupied by the subscriber continuously; (c) moving of the subscriber's equipment from place to place within the premises or changing the type of the equipment; and (d) the succession of one individual subscriber to the instrumentalities used by a predecessor at any one locality.

We will consider these in their order.

INSTALLATION CHARGES.

The justification for these charges, as presented by the companies with large exchanges in the chief cities of the State, may be classed under three heads:

1. To meet the costs of installation which are necessarily incurred but which cannot be capitalized.
2. Advance payments to cover the labor of removal of the telephone at some future date and to cover also the loss of material which will accompany such removal.
3. A deterrent against the ordering of telephone service by persons whose need for such service is of short duration.

The uncapitalized costs include the making of records in the various departments handling the work in the larger cities, or making up and keeping of cable records, somewhat complicated in their nature, and the working out in extremely usable form of data for directories and for

the information departments maintained by telephone companies.

Most elaborate studies were presented in explanation of the complex records, more puzzling no doubt in the telling than complicated in the doing. To the average mind it would appear that unnecessary refinements had been worked out in the matter of records until now they are ponderous and needlessly costly. All possible expenses should be eliminated in this period of depression, even though proper expenses in normal times.

It is unnecessary to discuss in full detail the elements which make up the uncapitalized cost in the keeping of records, with the exception of two or three elements. Against the new subscriber and the subscriber who moves is set up by these companies the cost of three out of four directories furnished and distributed each year and the cost of preparation of the directories. Were it not for the new subscribers and the subscribers who move, one directory per annum would be sufficient. Likewise, there is charged against these new subscribers the expensive and elaborately indexed information cards which are constantly called into use largely by reason of moves, new changes and new subscribers. It does appear that the information contained in directories is just as important to the patron who desires to talk to the new subscriber, or the subscriber who has moved, as it is to that subscriber himself and, likewise, the data in the hands of the information clerks. To us the company has hardly justified the segregation of these two items against the floating telephone public as compared with its payment out of the rentals paid by all subscribers. Likewise it would appear that certain other of the smaller charges more properly belong to revenue accounting and revenue collecting.

LOSS BY REASON OF REMOVALS.

A more important reason presented for service connection charges relates to the labor necessary to remove equipment and the material lost to the company by reason

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of the removals. This is no small cost. Sometimes it involves merely the sending of an employee from the central office to remove a telephone instrument and carry it back to the storeroom, together with the changes in the records and accounts of the company to show what has taken place. Sometimes it involves not only the removing of the instruments but taking out the wire from inside the house and sometimes it even involves removing the drop wire from the main lead to the house and taking it away. The wire which is removed from inside the house cannot again be used ordinarily, as the normal subscriber does not desire patched wire, particularly if it is visible wiring. The extent of these moves is almost startling.

In Omaha during the first six months of one year's studies, 4,605 telephones were installed. There was either cessation of use altogether or a move from the original location to some other location of these 4,605 new subscribers, as follows: during the first three months 815 quit service or moved to another location; by the end of six months, 1,700; in nine months, 2,295; during the first year, 2,727; and by the end of two and one-half years, 3,587 had either ceased being subscribers or had moved to other locations which involved definite and certain expense. The Lincoln company, from a considerable study, found that the loss in outside and inside wiring, where telephones were ultimately removed from the premises, was \$3.36 per telephone.

There was a tendency on the part of witnesses to conclude that these figures represented the turn-over in the use of telephone instrumentalities. This conclusion hardly seems warranted if it is a study only of the new installations for a particular period and must necessarily involve a large number of people who constantly flit from home to home and must also necessarily exclude the large block of permanent residence and business subscribers who seldom or never change location.

The Bell company presented figures to show the average cost for new installation in Omaha of \$7.12 which could

not be capitalized, and that the general cost at all exchanges outside of Omaha is \$5.57; in addition to the capitalized telephone instruments, drop wire, inside wire and labor of installation. It was exhaustively argued, with exhibits in support thereof, that the cost of a move was equally great and that there was practically no difference in cost where one subscriber succeeded to the instrumentalities of another. Whether these conclusions are well taken depends entirely on whether the items of expense can equitably be allocated, as was done by those who presented the data, or whether some portions of these expense items would not more equitably be borne by the general telephone-using public. The added factor to be considered is, of course, the question of policy as to how much the expense of moving subscribers and of installing new subscribers ought to be paid specifically and how much ought to be borne by the telephone-using community.

THE SHORT-TIME USER.

No small factor in the consideration of this charge lies in the effort to deter short-time users from taking telephone service. This floating element from apartment house to apartment house, from desk space in an office to desk space in another office room, and from town to town, is more pronounced in the larger cities than in the country towns and in the rural service. From the figures already presented it is evident that in Omaha during the period studied 80 per cent. of those subscribing during a definite period moved or quit service within three years. At Grand Island 68 per cent. moved or quit service and the composite figure of seven exchanges of the Bell telephone company in Nebraska outside of Omaha was 64 per cent. moving or eliminating service. While the Commission has no figures from independents serving a majority of rural subscribers no doubt the data would show a still smaller turn-over. If the figures on cost of taking care of the move of a subscriber from one location to another are anywhere near correct it must at once be evident that the

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short-term subscriber remaining in service less than three months is handled at a heavy loss by the company and that in all events the subscriber who moves occasionally costs the company more money than the subscriber who seldom moves. If service is to be furnished on a cost basis these facts must be taken into consideration. In how far service should be furnished on a basis of cost to each individual served is an important question, not only as regards service connection charges but as regards monthly subscribers' rates.

There can be no question that the short-time user should either be discouraged from taking telephone service or should pay approximately what he costs the company. Unfortunately it cannot be told in advance whether the subscriber is short-time or not, as he himself either does not know or will not tell. The extremely short-time user cannot be charged an extra amount at the close of the period of service because there is no proper economical method of collecting it. Hence, the deterrent element must be surely one of the factors to consider in fixing charges for installation. At whatever figure these charges are placed it amounts merely to localizing the production of revenue against certain subscribers who cost the company more and relieving to just that extent the more permanent patrons.

To be effective this deterrent factor must be more pronounced where the average monthly telephone rate is higher and *vice versa*.

It is our conclusion that service connection charges should be continued permanently in Nebraska but that these charges should be graded. It would appear proper that they be somewhat higher for business telephones than for residence telephones, as the record shows that business service is more unstable than residence service. It would also appear proper that the rates be higher in the cities where the turnover is greatest and where the plants are most complicated, inasmuch as the greater the complication the greater the cost of keeping the records and of making the changes.

**SERVICE CONNECTION CHARGE — INSTRUMENT NOT IN PLACE
BUT INSIDE WIRING AND DROP IN POSITION.**

In dealing with this class of service the assumption must be that at the time of the original installation an installation charge was paid, a portion of which charge is to cover the cost of removal and the loss of drop and inside wiring. Inasmuch as the drop and inside wiring are in place that portion of the original installation charge paid for the purpose of offsetting this loss still remains in the possession of the company. To pay another installation charge in like amount means that an additional credit is applied to cover the loss of inside wiring and drop wiring and this may be repeated several times. Obviously if the theory of the installation charge is sound the same amount of charge ought not be made where a portion of the facilities are in place. Very probably the answer to this statement is that the total cost of removal and loss and all other expenses incident to the move or change is only partly represented in the installation charge and hence if the charge is repeated it more nearly approaches the actual cost experience. Here it appears a question of policy as to how much of the charge, if not all, shall be directly allocated to a particular subscriber. From the subscriber's point of view (and all telephone companies should desire that their subscribers see the reasons for charges made) it is difficult to understand why the charge in the instance under consideration should be equally high with an original installation charge. The Commission is of the opinion that some differential should exist as to the service connection charge under the circumstances under discussion as compared with an original installation charge.

**SERVICE CONNECTION CHARGE — INSTRUMENT IN PLACE BUT
LAPSE OF SERVICE HAVING OCCURRED.**

No real difference exists in the costs under these circumstances when compared with the costs where the instrument is not in place, as the cost of re-establishing the instrument becomes a capital charge. The company loses

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revenue while the telephone is in place and is idle. In our opinion, under the circumstances here discussed, the subscriber should pay the same service connection charge as he would pay where the house has been wired but where the telephone must be reconnected or re-installed. There should, however, be the option to the subscriber to pay for the lapsed period of service and be then considered in the same category as a supersede or change of name transfer.

SERVICE CONNECTION CHARGE — SUPERSEDE OR CHANGE OF
NAME.

The circumstances herein described are where one subscriber moves out of a location and another moves in with no lapse in period of service and where the expense consists of changing of office records and an inspection of the instrument and wiring to see that it is in first-class condition. Both the Lincoln and the Bell companies testified in detail that there was no particular difference in the costs under these circumstances from the costs under circumstances heretofore discussed, including original installation. They urged that the same kind of a trip must be made from the central office for purposes of inspecting the telephone and testing it out and making such repairs as are essential, and that the same directory expenses are incurred and the same work in preparing the data for the information departments. It is to us a matter of more than passing doubt as to whether or not the inspection of the instrument, and the minor repairs which may be made to it, is not a maintenance expense, either deferred maintenance of a predecessor's use of the instrumentality or anticipated maintenance of a future date. The doubt in the minds of the Commission is sufficiently strong to warrant the conclusion that the charge for this particular service should be made against the general maintenance funds.

There is no question from the evidence before us but what there are costs in connection with the supersede or

change of name which can be approximately allocated, varying with the practices of the company under the circumstances, and with the complexity of the plant involved. Very likely the allocation can no more readily be made than can maintenance charges be allocated to particular subscriber's equipment, or the collection expense, or even the return on the investment. It has always been considered a question of policy that these latter charges against the operating revenue should be generally spread rather than be allocated. In the case of the supersede or change of name it again becomes a matter of policy largely as to where the charge shall be placed; that is, whether against the general revenues or in allocation against the particular subscriber. A majority of the Commission believes that the record substantially proves the necessity for a change of name charge on the Omaha and Lincoln exchanges because of the very great complexity of the plants and of the traffic and commercial organizations essential to proper operation in those exchanges. The majority does not think that this charge should be extended to the smaller exchanges within the State. This conclusion is a question of policy almost entirely. A minority of the Commission believes that the evidence warrants some sort of a service connection charge in instances of supersedes or change of name in various other exchanges in the State where the plants are relatively complex and the organizations, both traffic and commercial, are intricate.

INSIDE MOVES.

These expenses are caused only by the subscriber. No other subscriber on an exchange is interested. It is a matter of indifference to a calling subscriber where the instrument of the person called is located or the type of such instrument. Whatever cost is incurred by reason of inside moves is due to the convenience of the particular subscriber. Before any charge for this service was made in years gone by a great deal of cost piled up against the

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operating companies by reason of inside moves. It is our opinion that a charge for the entire cost of an inside move, plus a reasonable overhead and profit, should be made against the subscriber asking for the inside move. It is recognized that this means extra bookkeeping, that the amount of the charge cannot be ascertained definitely in advance, and that it may cause many controversies and for that reason it is opposed by many, if not all, of the companies. The Commission recommends a rule placing against the subscriber causing the inside move the entire cost of that move, plus a reasonable profit. Telephone companies within the State will be permitted, however, to file rules for specific charges for classes of inside moves, which will constitute the proper schedule for such services unless specifically rejected by the Commission. In case no such rules are filed, service on a cost plus basis will be the legal schedule. This action of the Commission is not intended to cover the expenses incident to the moving of P. B. X. equipment; which shall in all events be on a cost plus basis.

We now come to the question of whether charges for service connections shall be on a flat basis throughout the State, regardless of the nature of the exchanges, or shall be on a sliding scale. The Northwestern Bell Telephone Company urges a sliding scale. The Lincoln company, respondent herein, and various independents urge a flat basis.

At the time of the hearing testimony was taken from a considerable number of representatives of independent companies, both small and large. Almost without exception they failed to have the proper idea of what the service connection charge is for and were almost united in the belief at the beginning of the hearing that they were being paid for the cost of labor and material for installations regardless of the fact that such labor and material appeared in the capital account. Practically without exception they presented no evidence indicating that the general cost for service connection charges even approximated the

amounts that had been charged for the services. If the keeping of records and the cost of removes amounted to any considerable money the companies involved had failed to be impressed thereby. The case presented by the Nebraska Telephone Company, predecessor of the Northwestern Bell Telephone Company, was largely made up from experiences in Omaha, and that of the Lincoln Telephone and Telegraph Company from experiences in Lincoln. The testimony as to similarity of costs at smaller exchanges was rather general in nature. Some figures were presented as to the uncapitalized cost of service connection charges at smaller exchanges, but these were not explained in detail. From the point of view of the actual uncapitalized costs and of the deterrent factor, which is an important consideration, the Commission is of the opinion that sliding scales are more to be desired than a flat charge such as was made by the Postmaster General.

Some Nebraska companies ignored the Postmaster General's order to make service connection charges and never put such charges into effect. Under order * of this Commission, and subsequent to the return of wire companies to their owners, these companies were exempt from making the service connection charges. At this time the order herein will be considered to include all commercial telephone companies within the State, with permission to any and all of such companies to file individual applications for modification, if modification is justified by local and peculiar conditions. Such applications for modification should be filed not later than December 1, 1921.

ORDER.

It is, therefore, ordered by the Nebraska State Railway Commission, That effective December 1, 1921, all telephone companies of Nebraska be authorized and directed to charge the following service connection charges:

* See Commission Leaflet No. 93, p. 1010.

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(A) *Where Necessary to Install Instruments, Drop and Wiring:*

<i>Exchange Classes</i>	<i>Business</i>	<i>Residence and Rural</i>
Omaha	\$5 00	\$3 50
Lincoln	4 00	3 00
1,000 subscribers, plus	3 00	2 00
600 to 1,000 subscribers.....	2 50	1 75
Less than 600 subscribers.....	2 00	1 50

(B) *Where Drop and Inside Wiring is in Place:*

<i>Exchange Classes</i>	<i>Business</i>	<i>Residence and Rural</i>
Omaha	\$3 50	\$2 50
Lincoln	2 75	2 00
1,000 subscribers, plus	2 50	1 50
600 to 1,000 subscribers.....	2 00	1 25
Less than 600 subscribers.....	1 50	1 00

(C) *Instrument and Wiring in Place — Lapse of Service:*

Same as class next above with option to subscriber to pay for lapsed period and be considered a supersede or change of name.

(D) *Supersede or Change of Name — Instrument and Wiring in Place and No Lapse of Service:*

<i>Exchange Classes</i>	<i>Business</i>	<i>Residence and Rural</i>
Omaha	\$1 00	\$1 00
Lincoln	1 00	1 00
All other exchanges	none	none

(E) Extension stations, instruments and wiring not in place, \$1.00; otherwise no charge.

(F) *Private Branch Exchanges:*

Main station, same as trunk line rates.

Substations, instruments not in place, \$1.00.

(G) *Inside Moves:*

Cost of work plus reasonable profit, or in lieu thereof companies may file fixed schedules of charges by classes of jobs required; private branch exchange switchboard moves at cost of move.

(H) Changes in type of equipment at request of subscriber, \$1.00; of private branch exchange switchboard, cost of change.

NOTE: "Exchanges" refers to separate plants and not to systems.

It is further ordered, That subscriber be given the option of paying the regular rate for the period of lapse under order condition (C) above and being then classified under order condition (D).

Made and entered at Lincoln, Nebraska, this twenty-sixth day of October, 1921.

SUPPLEMENTAL FINDINGS.

Decided December 1, 1921.

In accordance with the specific provisions of the findings in the original order * herein, the Northwestern Bell Telephone Company and the Lincoln Telephone and Telegraph Company have filed, respectively, applications for modification of the general order for application to their properties.

Formal hearings were not had on these supplemental applications but the questions at issue were carefully gone into in informal hearings. Both companies felt that the classifications set forth in the general order would cause some irritation on the part of the public which might be eliminated if certain suggestions made by them were followed.

On the part of the Nebraska company it was proposed to modify as follows:

(1) To consolidate Classifications A and B under the general heading "Main Stations — Instruments Not in Place";

(2) To consolidate Classifications C and D under the general heading "Instruments in Place" and to apply slightly different ratings to this Classification C by reason of such consolidation;

(3) To make a charge of \$2.50 installation fee for each station attached to a private branch exchange in place of the charge of \$1.00 provided in the general order;

(4) To substitute specific charges for inside moves in place of the cost of the service. Such substitution was specifically allowed in the main finding.

The Lincoln Telephone and Telegraph Company proposed the same consolidations of Classifications A and B

* See *supra*, page 94.

and of C and D, the same increase in installation charges for stations attached to P. B. X. boards, and a flat charge for inside moves, depending upon the nature of the move.

Evidence was presented by both companies that the number of cases of installation arising under the Commission's Subdivision B where specific charges for installation were set forth at places where drop and inside wiring remains in place were relatively few, when it was considered that usually the new subscriber at a location where a telephone had previously been in use generally desired changes in the inside wiring and the further reason that it is the common practice of both companies to permit telephones to remain in place a considerable length of time where there is reason to believe that the new tenant of the property will desire telephone service. Insofar as the merging of the two classifications would cause the charges in Classification A where otherwise the charges of Classification B would be made, it is an increase in the installation charge as compared with the original order.*

The companies were unanimous in stating that a different charge for the taking on of a subscriber where the instrument is in place, such differing charge dependent upon whether there was a lapse of service between the two subscribers or not, is a constant source of annoyance to subscribers. The officers of the two companies speak from abundant experience. The proposed consolidation of the Commission's Classifications C and D would have the effect of reducing the charges to any subscriber who would otherwise fall under Classification C.

It is proposed by both companies that the supersede or change-of-name charge should be applied more widely than to Lincoln and Omaha and in support of this contention it was pointed out that with each change or supersede there must be left idle on the switchboard the location of the preceding subscriber until such time as a new directory is printed, and it was further pointed out that wherever ex-

* See *supra*, page 94.

changes are large enough to require multiple switchboards there is a very complicated task of wiring the new subscriber onto the switchboard, even though only a supersede, that requires a considerable amount of time, which is not required in the more simple switchboards of one and two positions. The Commission considers that there is force in this contention, and the order herein will provide for the extension of the charge for supersede or change-of-name to all exchanges where multiple switchboards are necessary and in use. The Northwestern Bell Telephone Company has asked that the supersede or change-of-name charge at Omaha be left unaffected because of the very great complexity of cable lines and inter-communicating exchanges, all of which are affected by changes of subscribers. The Lincoln company asks a similar conclusion. On full consideration, the Commission does not believe the two situations comparable. It will approve a charge of \$1.50 for supersede or change-of-name on the Omaha exchange and a charge of \$1.25 for similar services on the Lincoln exchange. It will approve, also, a charge of \$1.00, both on business and residence and rural, where the exchange is supplied by and operated in conjunction with multiple switchboards.

In the original order * herein the Commission cancelled supersede or change-of-name at all exchanges outside of Omaha and Lincoln. By the concession made above such cancellation will be somewhat more restricted. The Lincoln Telephone and Telegraph Company asks for a charge of 50 cents for supersede or change-of-name, business, residence and rural, at all of its smaller exchanges. For the reasons assigned in the original opinion, this portion of the application will be denied.

Provision E of the original opinion will not be modified.

Regarding the Commission's Subdivision F, both applicants ask to have the charge increased to \$2.50 for the

* See *supra*, page 94.

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installation of all stations attached to the switchboard. The original application herein and the testimony relating thereto was not on the basis of this charge and there is no evidence now before the Commission to warrant the full concession. On further consideration, however, of the fact that the stations attached to a private branch exchange are frequently spread over a very large business building or plant, with a correspondingly large amount of inside wiring, most of which is lost whenever the private branch exchange is removed, we will modify the order, as regards these two applicants, to \$1.50.

Both applicants have filed schedules of charges for inside moves, dependent upon whether the move is within the same room or in different rooms, and while the two applicants are not in agreement as to the amounts of such charges neither will be rejected. It is understood, of course, that both an inside move and an installation do not take place at the same time. No change is asked regarding the Commission's Subdivision H, except that in the Northwestern Bell application the words "at request of subscriber" are omitted. This is probably an oversight, as changes in type made voluntarily by the company ought not to be the reason for an extra charge to subscribers.

SUPPLEMENTAL ORDER.

It is, therefore, ordered by the Nebraska State Railway Commission, That, effective on one day's notice, an emergency existing, the following charges for service connections shall be made, respectively, by the Northwestern Bell Telephone Company of Nebraska and the Lincoln Telephone and Telegraph Company, to-wit:

NORTHWESTERN BELL TELEPHONE COMPANY.

(A) Main Stations — Instruments Not in Place:

<i>Exchange Classes</i>	<i>Business</i>	<i>Residence and Rural</i>
Omaha	\$5 00	\$3 50
1,000 subscribers or more.....	3 00	2 00
600 to 1,000 subscribers.....	2 50	1 75
Less than 600 subscribers.....	2 00	1 50

(B) Main Stations — Instruments in Place:

<i>Exchange Classes</i>	<i>Business</i>	<i>Residence and Rural</i>
Omaha	\$1 50	\$1 50
Single office exchanges with multiple switch-boards	1 00	1 00
All other exchanges	None	None

(C) The provisions of Subdivision E of the original order.*

(D) Private Branch Exchanges:

<i>Exchange Classes</i>	<i>Business</i>	<i>Residence and Rural</i>
Stations, instruments not in place.....	\$1 50	\$1 50

Trunks, same as for main stations when instrument is not in place.

EXPLANATION: One individual firm or corporation may supersede to the P. B. X. service furnished another if the service is actually terminated for one subscriber and established for the other with the same facilities and there is no change in the class of service, type or location of equipment. The service connection charge which will apply, regardless of the number of stations involved, will not exceed the charge made for establishing service at a main station when the instrument is in place. The superseding subscriber must assume for the unexpired term the contract of the subscriber whom he supersedes.

(E) Inside Moves:

Omaha, Grand Island, Fremont, Norfolk and North Platte:

Moving an instrument within the same room.....	\$1 50
Moving an instrument from one room to another.....	2 50
All Other Exchanges:	
Moving an instrument within the same room.....	1 00
Moving an instrument from one room to another.....	2 00

* See *supra*, page 94.

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If after work is once begun on an inside move, it is found necessary to discontinue the work in order to allow the subscriber to make or complete changes in the premises, a charge of \$1.00 will be made for each additional trip which is made necessary by the subscriber.

Switching Equipment:

Actual cost of work.

Changes in Type of Equipment:

Changes in type of instrument at request of subscriber, as
from wall to desk..... \$1 00

LINCOLN TELEPHONE AND TELEGRAPH COMPANY.

(A) *Main Stations—Instrument Not in Place:*

<i>Exchange Classes</i>	<i>Business</i>	<i>Residence and Rural</i>
Lincoln	\$4 00	\$3 00
1,000 subscribers plus.....	3 00	2 00
600 to 1,000 subscribers.....	2 50	1 75
Less than 600 subscribers.....	2 00	1 50

(B) *Main Stations—Instrument in Place:*

<i>Exchange Classes</i>		
Lincoln	\$1 25	\$1 25
Exchanges with multiple switchboards.....	1 00	1 00
All other exchanges.....	None	None

(C) *Extension Stations:*

No change from original order* — Classification E.

(D) *Private Branch Exchanges:*

Trunks, same as main station rates.
Substations, instruments not in place..... 1 50 1 50

(E) *Inside Moves:*

<i>Lincoln Exchange:</i>		
Moving an instrument within the same room.....		\$2 00
Moving an instrument from one room to another.....		2 50
<i>All other Exchanges:</i>		
Moving an instrument within the same room.....		1 50
Moving an instrument from one room to another.....		2 00

(F) *Changes in Type of Equipment:*

Changes in type of equipment at request of subscriber,
\$1.00; of P. B. X. switchboard, cost of change.

Made and entered at Lincoln, Nebraska, this first day of
December, 1921.

* See *supra*, page 94.

In re APPLICATION OF THE FARMERS' MUTUAL TELEPHONE
COMPANY OF ORD FOR AUTHORITY TO INCREASE EXCHANGE
RATES.

Application No. 4130.

Decided October 27, 1921.

**Order to Increase Rates Held Mandatory — Existing Rates Continued
Pending Determination of Allowance for Maintenance and
Depreciation.**

SECOND SUPPLEMENTAL FINDING.

Increased rates approved by this Commission under date of March 22, 1920,* and effective under that order until November 1, 1920, and subsequently continued in effect until November 1, 1921,† now require attention because of the near approach of the termination date of the last order. Under the terms of the original order* the company was required to furnish monthly reports of its operating revenues and expenses. These reports were to be based on the accounting system prescribed by the Commission, but unfortunately, due to a change in management following the consolidation, the accounts have not followed in all the detail the system prescribed. However, the record as to the revenues and expenses has been accurately kept and the results of the application of the existing rates are thus ascertainable. The company operates two exchanges, one at Ord and the other at Burwell. A portion of the reports combine the revenues and expenses from both exchanges, but since May the figures for Ord alone are available and are presented as follows:

* See Commission Leaflet No. 102, p. 234.

† Noted in Commission Leaflet No. 109, p. 1416.

REVENUES.

City subscribers' service revenues.....	\$5,071 00
Farm subscribers' service revenues.....	436 15
Switching revenues.....	1,603 00
<hr/>	
TOTAL EXCHANGE SERVICE REVENUES.....	\$7,110 15
Toll revenues	835 93
Sundry sales	70 04
Other miscellaneous revenues	251 10
<hr/>	
TOTAL MISCELLANEOUS REVENUES	\$321 14
<hr/>	
TOTAL OPERATING REVENUES	\$8,267 22
Total operating expenses	5,578 69
<hr/>	
TELEPHONE OPERATING INCOME	\$2,688 53
Miscellaneous income	25 55
<hr/>	
TOTAL OPERATING INCOME	\$2,714 08
Deductions from Income:	
Taxes accrued	\$247 24
Interest accrued	318 00
Miscellaneous charges to income.....	125 00
Dividends declared	507 46
<hr/>	
TOTAL DEDUCTIONS FROM OPERATING INCOME.....	1,197 70
<hr/>	
PROFIT AND LOSS	\$1,516 38

This indicates that for this five-months' period the operation of the exchange resulted in a substantial surplus. This surplus is more apparent than real however, since some of the expense items will be somewhat increased. For instance, the interest rate on the \$13,000 of borrowed money has recently been increased from 8 to 9 per cent. and the taxes at Ord will be quite materially advanced for the year 1921 over the amount set up in the above tabulation. Moreover, doubt still exists in the minds of the Commission as to what amount ultimately will be required for maintenance and depreciation. The consolidation of two old properties at Ord has resulted in an abnormal physical condition. Much work in rehabilitating the prop-

erties has already been done, but much remains to be done before the plant becomes a modern telephone system. In the original order * the Commission required the company to set aside \$4,457 annually for maintenance and depreciation. This amount has been exceeded during the past eighteen months with the result that there has been no opportunity for creating a reserve. As stated in the original order,* it was impossible to determine at that time, and the information is now lacking, as to the cost of the consolidated property now in place. That fact cannot be ascertained without a revaluation of the property. In the meantime, it is in the interest of the public that a liberal expenditure be made by the company in reconstructing the plant. The management should bear in mind in this connection that it is not intended to make additions and betterments to the property out of earnings and due care should be taken with the accounts so that this result can be avoided.

While the Commission authorized the company to pay a dividend of 8 per cent. on \$32,770, the company has been unable to pay a cash dividend on any of the outstanding stock for the reason that it had such a large amount of borrowed money. Up to a few months ago this amounted to \$16,000. This has been reduced to \$13,000, partially through the issuance of a stock dividend to the stockholders in lieu of cash, the cash being utilized to reduce the indebtedness. In view of the present financial stringency and the necessities confronting the company, this was a proper procedure. It is probable that it will be necessary to repeat it for the year 1920. The company is making every effort to reduce its operating expenses and has succeeded to some extent.

The Commission is of the opinion however, that the present rates, under all the conditions as they exist, should be continued for another period, during which time, however, a revaluation of the property at Ord will be made by

* See Commission Leaflet No. 102, p. 234.

the Commission for the purpose of more accurately determining what allowance should be made for maintenance and depreciation. An extension of nine months from November 1, will be made.

In the original order * the Commission authorized a rate of \$1.75 per month for metallic farm line service and \$1.50 for grounded farm line service at Burwell. This represented an increase in the rate at that point. The company never made this rate effective. It should have done so, since the order was mandatory and it had no other alternative. The officers of the company were under the impression that under the order of the Commission the company had the option of continuing the old rate, if it so desired. In this it was in error. The order of the Commission, therefore, will be amended so as to restore the old farm line rate at Burwell.

SECOND SUPPLEMENTAL ORDER.

It is, therefore, ordered, That the rates prescribed for the Farmer's Mutual Telephone Company of Ord and expiring on November 1, 1921, are hereby further extended from that date to August 1, 1922, subject to all of the conditions specified in the original order.*

It is further ordered, That the rate for farm line service at the Burwell exchange, viz., metallic circuit \$1.75 per month, grounded circuit \$1.50 per month, be, and the same hereby is, cancelled and the former rate of \$13.00 per year for grounded farm line service be reinstated.

Made and entered at Lincoln, Nebraska, this twenty-seventh day of October, 1921.

* See Commission Leaflet No. 102, p. 234.

In re APPLICATION OF THE FARMERS' UNION TELEPHONE
COMPANY OF WINNETOON FOR AUTHORITY TO INCREASE
RATES.

Application No. 4350.

Decided October 27, 1921.

Rates Reduced on Request of the Company.

SUPPLEMENTAL FINDINGS.

Effective January 1, 1921, this company was authorized * to increase rates 25 cents per month on all classes of service, such rates to continue for a period of six months. On July 1, 1921, by supplemental order,† it was authorized to continue these rates in effect until November 1, 1921. Through its president, Henry Schwartz, the company now asks authority to reduce the rates on farm and residence service from \$1.50 per month to \$1.25 per month, effective at the termination of the existing temporary order.

At time of the original order * herein it was estimated by the Commission that the revenues would amount to slightly less than \$7,000 per annum under the proposed rates and that the expenditures would be approximately the same amount if 8 per cent. dividends were paid on outstanding stock. There was no question but what the stock is fully represented by property. Coming at the time it did, when prices of farm products were falling sharply, the increase of 20 per cent. in the rates resulted in some loss of revenue to the company through decreasing the number of rural subscribers. The estimate by the Commission of the possible gross revenue omitted the earnings from added exchange service at Verdigre and at Creighton, amounting to about \$400 per year. No allowance was made for loss of subscribers. We do not yet have the annual report of the company, but it is evident that the actual

* See Commission Leaflet No. 111, p. 298.

† Noted in Commission Leaflet No. 118, p. 875.

gross earnings for 1921 will fall below the estimate made by the Commission.

The company has perfected some economies. It has been able to reduce the salary of the lineman a small amount and to nearly eliminate the extra help on line work. The board of directors is fully aware that under the proposed reduction of approximately \$1,000 in revenues there is a strong possibility of earning none or only a small part of the dividends to which the company is entitled. Speaking for the stockholders, the board of directors is willing to sacrifice temporarily.

The owners of public utility properties can voluntarily do what the Commission cannot under the law require them to do, that is, to waive the right to a fair return on their property. Whether this is an advisable thing to do is always a question, for where dividends are sacrificed whenever an emergency arises it renders more improbable the sale of additional stock for betterments which may later be necessary.

It is the opinion of the Commission that, all facts considered, this applicant should be allowed to reduce the rates on residence and rural service to \$1.25 per month, payable in advance, and to \$1.50 per month where not paid in advance. It is not deemed advisable, however, to eliminate the requirements for maintenance. The life of the company is, in a measure, at stake and the property ought not to be sacrificed. The Commission will, therefore, require the company to set aside a definite amount for maintenance. Because of some economies perfected since the previous orders the maintenance amount will be reduced slightly and the company will be required to set aside \$2,400 per annum on a monthly basis of \$200, out of which amount shall be paid that portion of the lineman's salary representing the time devoted to maintenance and reconstruction, cost of all batteries, automobile upkeep and operation and labor and material for repairs and replacements. If any surplus remains it shall be held to the credit of the account and must not be drawn upon to pay dividends.

The annual meeting of this company occurs in June of each year, at which time whatever dividend is to be paid, as earned during the preceding year, is declared. The company will be required, as a condition of this order, at some time prior to the annual meeting in June, 1922, to report to the Commission a complete statement for the fiscal year June 1, 1921, to June 1, 1922, of all earnings and disbursements on forms provided by the Commission, or if that is impracticable, to report for eleven of the twelve months, and shall present to the Commission the judgment of the board of directors as to whether any dividend can be paid, and no dividend shall be paid until, after check, the Commission shall have found it was earned.

A condition of the original* and first supplemental order † in this case was that the company should more vigorously endeavor to maintain its accounts in accordance with the uniform rules of accounting and should make such reports as were required by the Commission. The penalty for failing to do this was the possibility of having the rate increase cancelled. The application of such penalty might indeed be drastic and the Commission has hesitated to inflict it. If, however, the company does not pursue a more vigorous attitude in the keeping of its accounts such action will be taken by the Commission as is provided by law for the enforcement of its orders in that respect.

SUPPLEMENTAL ORDER.

It is, therefore, ordered by the Nebraska State Railway Commission, That the Farmers' Union Telephone Company of Winnetoon be, and it hereby is, authorized and directed, effective November 1, 1921, to charge and collect the following schedule of rates:

	Per Month	
	Gross	Net
Business service	\$2 25	\$2 00
Residence service	1 50	1 25
Rural service	1 50	1 25

* See Commission Leaflet No. 111, p. 298.

† Noted in Commission Leaflet No. 118, p. 875.

Residence and business service within the exchange limits shall be paid monthly in advance. Rural service shall be paid quarterly in advance or for a longer period at the option of the subscriber.

Gross rates shall be charged on monthly bills where payment is not made on or before the fifteenth of the month in which the service is rendered and on rural service where bills are not paid during the first month of the quarter in which the service is rendered.

It is further ordered, That all other rates heretofore granted, including added exchange service and service on the party line of the town of Center, shall remain in full force and effect.

It is further ordered, That the company shall set aside monthly the sum of \$200, to be known as a maintenance fund, against which charges shall be made in accordance with the uniform rules of accounting, installed at this exchange by the Commission's accountants. Any surplus in said fund not expended from month to month shall be retained intact by the company as emergency maintenance funds and reserves for reconstruction.

It is further ordered, That before any dividend is declared for the year ending June 1, 1922, the company shall present proofs to the Commission that it was fairly earned.

Made and entered at Lincoln, Nebraska, this twenty-seventh day of October, 1921.

In re APPLICATION OF THE CAMPBELL TELEPHONE COMPANY
FOR AUTHORITY TO INCREASE RATES.

Application No. 4543.

Decided October 29, 1921.

Value Determined — Allowance Made to Stockholders in Lieu of Dividends — Monthly Requirement for Maintenance Increased — Deduction from Rates Authorized where Subscribers Own Instruments and Furnish Batteries.

SECOND SUPPLEMENTAL FINDINGS.

Several months ago this applicant appeared before the Commission and presented evidence of serious financial embarrassment and asked for authority to seek a way out by requiring all subscribers to become stockholders. It also asked for increases in rates. An emergency appeared to exist and the Commission issued a temporary order,* effective May 1, 1921, and directed a physical examination of the property to be made before a final hearing and order. Subsequent to the inventory and valuation, hearing was held at Campbell on September 7, 1921. The company was there represented by a majority of its board of directors, who asked that they be permitted, at least for a longer temporary period, to collect the existing rates. No respondents appeared.

This case involves the finding of a fair value of applicant's property, as well as a measure of reasonable rates.

In the early days of the twentieth century, telephone service originated in the vicinity of Campbell by the organization of small mutual companies, wherein cash was contributed by each member in proportional amount, work was donated and lines were built radiating from the town of Campbell, and a central office was established on a cooperative plan, with assessments levied for maintenance and upkeep of lines.

In 1907 the company was incorporated, authorized capital stock \$7,000, with an indebtedness limited to \$500. All

* See Commission Leaflet No. 115, p. 1842.

the independent lines were merged into the one corporation and stock of the par value of \$25.00 per share was issued to each of the stockholders in the individual company to represent his cash contributions in his particular original mutual company. The evidence shows that there were some cash adjustments. The company was at this time still a mutual. In common with other companies it found it impracticable to remain a mutual and it has been renting telephones for a number of years.

There has grown up a system of rates which is rather cumbersome but to which the officers offer no objection. Stockholders pay one scale of rates; non-stockholder subscribers, who own their drop and instrument, pay another scale of rates and those who are served by the company, but who own no property, pay a third scale. The company furnishes batteries only to this third class. All other subscribers, constituting approximately 90 per cent. of the total, buy their batteries from the company at cost or slightly more, which cost is additional to the rate paid.

It is seen that the outstanding cash capital, amounting to \$6,775, represents only the cash which was originally put in. In the estimation of those who formed the original company, none of the labor donated, and it constituted a very considerable part of the labor of construction, is represented by capital liabilities, although represented in the assets.

The Commission's engineers made an inventory of the property and attached approximate historical construction cost units thereto and for each class of property found a condition per cent. The result was a figure which included certain recognized general expenses which were, in the case of this company, (as was the labor of construction) actually donated in large part. The Commission's engineers found an historical construction cost of \$17,522.27, which the department depreciated to \$11,965.45. On a basis of 365 stations, with no real estate owned, it gives a per station value of \$32.78 at this time, on the basis used by the engineers.

This is on the basis of actual cost of construction during the period when this property originated if all work had been hired. It does not include working capital or any intangible values, such as going concern.

The company's statement of assets, as of August 31, 1921, shows fixed plant value \$11,215.42, to which should be added materials and supplies \$327.78. This does not represent the record cost of the property. It does not take into account the early donated labor and the testimony was that for years it was the practice of the company annually to depreciate the assets, so, in a measure, this represents a depreciated book value as kept by the company. The failure of the company to take into account the early donated labor is partly offset, according to the evidence, by its applying depreciation at a slower rate than the engineers find was taking place.

This company is entitled to certain recognition of present values in excess of those which the property cost, although it is not asking for such consideration. It is entitled to working capital. Its working capital must be in part measured by the level of outstanding accounts, and by the advance payments. From the record before us it is the conclusion of the Commission that sufficient going value has been included by the Commission's engineers in the percentage condition allowed of property practically worn out but of more value as a part of the plant than as salvage. To illustrate this the Commission's engineers allowed a value of \$129.38 for switchboard and accessories which the company soon thereafter sold for \$50.00.

Due to its extension over too wide a territory for the amount of cash invested, and possibly to the level of rates not permitting the accrual of depreciation funds, the stockholders found it necessary about a year ago to put \$10.00 additional cash for each share into the plant. Hence, the cash contribution now stands at \$35.00 per share and the donated work represents the additional value.

From all the facts considered here, we find the fair value of this applicant's property, as of September 1, 1921, to be \$13,500.

The attention of the directors is called at this time to the fact that the articles of incorporation limit indebtedness to \$500, whereas the company now owes \$800 in notes. This situation should be corrected at the earliest convenient moment, either by reducing the indebtedness or amending the articles of incorporation. These articles can be amended by a two-thirds vote of the stockholders.

The present possible revenues of the company from the rates temporarily authorized are \$4,830 from subscribers' service and a possibility of some additional earnings from miscellaneous sources and tolls. The record on toll revenue is obscure, both in the record and in the reports to the Commission. It is possible that the company allows the operators the toll commissions as additional compensation. If so, the practice should be changed to the extent that these revenues should show in total revenues and the extra expenditures should appear in operators' wages.

EXPENDITURES.

The present rates have been in effect since May 1, 1921, and we have before us the record of the company for the months of May to August, inclusive, only. The valuation made by the Commission indicates quite clearly that the company has not, under instructions from the Commission, been setting aside a sufficient amount for maintenance. That set-up was \$80.00 per month. Even by the close economy, which characterizes the operation of this property, the company has spent in actual maintenance about \$250 more in seven months than the set-up and has accrued nothing for depreciation or extraordinary repairs. Such an accrual is essential to the proper functioning of telephone companies and the order herein will require a larger amount of the revenues to be set aside monthly for maintenance purposes. The company now pays its manager \$125 per month as lineman and manager and \$12.00 per

month as secretary to the company. It hires such extra help as is necessary. Its operators at this time cost \$100 per month with the possibility of some emoluments on the side. It pays \$15.00 per month rent and hires a very energetic bookkeeper for \$20.00 per month. It is an economically operated company.

We come now to the question of diverse rates for different classes of subscribers. Certainly the stockholder who has an investment of almost \$50.00 per share in the property ought not to pay the same rate as a non-stockholder and no subscriber who furnishes the equipment of drop and instrument should have a total expense as great as the subscriber who furnishes nothing. The company does not care at this time to acquire the telephone instruments and drops of the majority of those who own them and the Commission will not insist upon it. The practice has been to rebate a portion of the rate to represent the difference in the value of the service performed. We think that a cash payment as dividends to those to whom it is due at stated intervals is preferable. The order will, however, leave it optional with the directors which course to pursue, whether to rebate at regular rental payment times on a fixed rate per annum or to collect the full amount and at stated intervals to pay a cash dividend.

The practice has been for all those who own their subscriber sets to buy their own batteries. This is subject to some criticism from service point of view because some subscribers do not properly keep their batteries vigorous. The Commission strongly recommends that the company buy and install all batteries as needed, but the order will not require this to be done at this time. The board of directors will carefully weigh this matter and adopt such plan as seems best in view of the recommendation. The rates will take into account this option to the board of directors and the company will be required to file with the Commission a statement of which option it elects to follow, *viz.*: first, the company to furnish the batteries or not; and, second, whether rebates will be made from bills of sub-

scribers at stated intervals or cash payments as dividends be made.

There are 56 subscribers who own no telephone property; 51 who own their subscriber sets and drops but no stock; and 257 who own both stock and subscriber sets and drops.

We find that the subscriber who owns no stock but who does own his subscriber set and drop is entitled to a rate of \$1.50 per annum less than the subscriber who owns no telephone property and \$2.50 per annum less if the subscriber also furnishes his own batteries. The stockholder subscriber is entitled to the same difference in the rates as compared with the subscriber who owns no telephone property and to \$4.00 per annum either as rebate, which we do not recommend, or as cash dividend to be paid at intervals named by the board of directors.

With rates thus adjusted we find that the company can pay its present operating expenses, taxes, and either allow the rebates or the cash dividends and have a surplus around \$100 per annum. If the company actually earns some toll revenue which is not immediately allowed as a part of the operators' wages, the amount of the toll earnings will be an additional surplus. The situation does not warrant any change in the rates and we agree with the board of directors of applicant company in this respect. We will again scrutinize the results of these rates prior to July 1, 1922, for the purpose of ascertaining the results of operating under the subjoined scale.

SECOND SUPPLEMENTAL ORDER.

It is, therefore, ordered by the Nebraska State Railway Commission, That, effective November 1, 1921, the Campbell Telephone Company be, and it hereby is, authorized to publish and collect the following scale of rates:

	<i>Per Month</i>
Individual business	\$2 00
Party line business	1 75
Individual residence	1 50
Party line and farm residence.....	1 40

From the above rates the company shall deduct for those who own their own subscriber sets at the following rate per annum, the deductions to be made as most convenient to the company :

	<i>Per Annum</i>
(a) If the company furnishes subscribers batteries.....	\$1 50
(b) If subscriber furnishes his own batteries.....	2 50

It is further ordered, That the company shall pay to the stockholders, in addition to the allowance for ownership of certain property, not more than \$4.00 per annum, per share, either to be paid in cash at such intervals as the board of directors may select, or as deductions from the bills, additional to the deductions set out above because of ownership of telephone subscriber sets.

It is further ordered, That the company shall set aside monthly for maintenance the sum of \$150 if the board of directors elects to purchase and supply all batteries for all subscribers and \$125 per month if the board of directors elects to follow the present practice regarding batteries; the charges against this monthly set-up to be in accordance with the uniform rules provided by the Commission.

It is further ordered, That the board of directors of applicant company shall elect among the options herein stated and notify the Commission relative thereto not later than December 1, 1921, the option selected by the board to apply to all alike.

Made and entered at Lincoln, Nebraska, this twenty-ninth day of October, 1921.

In re APPLICATION OF THE NORTHERN ANTELOPE TELEPHONE
COMPANY FOR AUTHORITY TO INCREASE RATES.

Application No. 4396.

Decided November 4, 1921.

**Rates as Requested Refused — Increase in Rates Authorized — Allow-
ance Made of 12 Per Cent. on Original Cost for Maintenance
and Depreciation — Return of 8 Per Cent. on Out-
standing Stock Approved.**

FINDINGS.

Applicant operates a telephone system consisting of four exchanges *viz.*: Brunswick, Royal, Ewing and Orchard. In addition to the subscribers served by these exchanges it owns the lines and furnishes the service to a number of farmers tributary to Neligh, switching service being secured from the Northwestern Telephone Company of that place. At the time of the application it had 894 subscribers. The present rates are as follows:

	<i>Per Month</i>
Business	\$2 00
Residence	1 00
Farm	1 50
Extension business sets	50
Extension residence sets	50
Two or more using one telephone.....	1 50

The application in substance is to increase all the main classes of service 50 cents per month.

The company was organized in 1903 and has had no change in rates since that time. It has outstanding \$30,000 in common stock and on December 31, 1920, had borrowed money in the amount of \$13,900. It has paid out dividends averaging 8 per cent. since its organization. In 1920, however, it was able to pay only 6 per cent. and the management anticipated having to pass all dividends during 1921. The valuation made by the Commission's engineers shows an original cost of the property of \$71,217.93 and a present or depreciated value of \$45,348.99. The plant is of magneto

construction with McClure common return in the towns and grounded lines in the country. It covers a large area with consequent long lines. This adds very materially to the cost of maintenance. The property is not in the best of condition and will require very substantial repairs during the next two or three years if anything like adequate service is to be maintained. The company has two regular linemen, but desires to add a third in order to more promptly take care of trouble and make necessary repairs. In addition to these men it has employed during the summer months additional men and expects to be engaged in a reconstruction program for some time to come. The switchboard at Ewing is old and needs to be replaced. The property has been operated on a very economical basis. For example, the traffic cost per subscriber for the year 1920 was only \$3.03 per year as against an average of 83 independent companies whose records are before the Commission, of \$5.15 per subscriber. The commercial expense per subscriber for this company was \$2.22 in 1920 as against an expense for the 83 companies of \$4.19. It is obvious, therefore, that the company cannot expect to further reduce its direct operating costs. As a matter of fact, if adequate service is to be furnished it is not unlikely that these costs should be increased. During 1920 the company expended \$10,209.03 for maintenance and replacements. This is considerably above the average for companies of this size. As we have indicated, however, the character of the territory served and the area covered called for a maintenance cost somewhat above the average. We are of the opinion that an allowance of 12 per cent. on the original cost of the property, as found by the engineers, would be sufficient. Basing the revenue on the number of subscribers now in service, the results of operation are shown to be as follows:

Gross revenue	\$16,182 12
Expenses:	
Operators	\$2,709 85
Commercial	1,980 40
Maintenance	8,546 04
Taxes	291 99
Interest	991 62
TOTAL	\$14,519 90
NET OPERATING INCOME	\$1,662 22

The interest charge as shown above, will, without doubt, be larger during the next year since the company was compelled to borrow \$3,600 during the latter part of last year, interest upon which is not reflected in the above figure. The tax item will likewise be substantially larger in 1921 than it was in 1920. Dividends at 8 per cent. on the \$30,000 of capital stock amounted to \$2,400. It appears, therefore, that the present revenues are not sufficient to pay the expenses and a return on the investment.

The increases asked for by the company would produce added revenue in the amount of \$5,382 per year. There appears to be no necessity for this amount of money. The company should have, however, more revenue if it is to continue to function and improve its service as it should. At the present time the residence rate of \$1.00 per month is out of line somewhat with the other rates. This is true also of the business rate of \$2.00 per month. An increase in these rates of 25 cents per month would produce added revenue of \$1,123 per year and with slight readjustments in some of the other classes of rates, there should be sufficient revenue to tide the company over the present emergency and permit it to prosecute its reconstruction program.

The manager of the company, Mr. Williams, stated at the hearing that he had offered to sell all or any part of the system, but had been unable to do so. He repeated his offer and stated he would be pleased to have the farmers and citizens in each community organize a company and take over the exchanges and that should they conclude to

do so he would make the terms to suit the wishes of the purchasers. The people of the territory served, therefore, have the option of going into the telephone business if they desire to do so and of going into it on very satisfactory terms.

ORDER.

It is, therefore, ordered, That the Northern Antelope Telephone Company be, and the same hereby is, authorized to charge and collect the following schedule of rates, effective December 1, 1921:

	<i>Per Month</i>
Business	\$2 50
Residence	1 50
Extension business sets	75
Extension residence sets	50
Desk sets, extra	15
Farm	1 75
Two or more using one business telephone	2 00
Two or more using one residence telephone.....	1 25
P. B. X. set in addition to trunk telephone.....	1 25

Vacation rates, one-half regular rate.

A discount of 25 cents should be made from above rates when payment is made on or before the fifteenth day of each month of service in case of business and residence telephones and before the end of the second month of the quarter in case of rural telephones.

It is further ordered, That applicant shall set aside annually an allowance for maintenance and depreciation of not less than 12 per cent. on an original cost of the property, viz.: \$71,217, plus additions and betterments as may be made from time to time.

It is further ordered, That any surplus remaining after dividends of 8 per cent. are paid on the outstanding stock shall be held in trust pending the further order of the Commission.

Made and entered at Lincoln, Nebraska, this fourth day of November, 1921.*

* On October 25, 1921, authority was granted on motion of the company to make its present net rate of \$1.75 per month its gross rate and allow a discount of 25 cents per month therefrom for prompt payment, *In re Sutherland-Fairview Telephone Company* (No. 4137).

In re APPLICATION OF THE PAWNEE TELEPHONE COMPANY
FOR AUTHORITY TO INCREASE RATES.

Application No. 3746.

Decided November 8, 1921.

**Former Finding as to Value Increased — Allowance for Dividends
Fixed at 8 Per Cent.**

SUPPLEMENTAL FINDING.

Application was filed for a rehearing of the above-entitled case directed against the opinion and order * of the Commission dated March 29, 1920. A rehearing was allowed and has been held. The facts of the case are fully stated in the former opinion. The more important contentions urged by the applicant will be taken up in the same order as in the motion for rehearing.

The Commission found that the applicant claimed \$85,519.66 as the reproduction cost of its property on October 1, 1919. That figure is taken from Sub-Exhibit 6 of applicant's Exhibit 5, which sub-exhibit is a summary of the figures contained in the preceding five sub-exhibits. In Sub-Exhibit 6 the property is classified among eight primary accounts, *viz.*: real estate, buildings, central office equipment, substations, distribution, tools and vehicles, stores and supplies, and general expenditures. The amount assignable to each account is set forth, the aggregate being \$85,519.66. It shows in the exhibit that it is based on the company's records. The applicant now claims a reproduction cost on the date named of \$111,026.96. The latter figure is not contained in the evidence but appears only in the brief of applicant. It is a computation based in a large part upon testimony of the applicant's secretary, most of which statements were made prior to the offer of applicant's Exhibit 5. The secretary's statements were general in their nature and did not, except in a few instances, relate to specific items. The sum first stated,

* See Commission Leaflet No. 103, p. 628.

\$85,519.66, appears to have been based upon an examination of the books of the applicant and was prepared by an expert employed by the applicant. In view of the facts the figure given in the brief of applicant, based only upon general assertions of the secretary of the company, cannot be taken seriously. The difference between the two figures, both offered by the applicant as careful estimates, is \$25,507.30. Such variation is sufficient to warn us that great reliance cannot be placed upon any of the figures offered and that we should be guided rather by the physical valuation than by the records of the company. During the hearing counsel for the applicant repeatedly said that the figures offered were only estimates and might vary from the actual facts as much as \$25,000.

In the former opinion * we found that \$6,500, contribution to capital in 1907, was a duplication in that the amount had already been included in the income account, designated by applicant as "other," which included money borrowed from the banks for which Mr. Becker became surety and which he paid in 1907, taking stock in return. It is contended that the total amount of "other" receipts from the beginning of the company's business to December 31, 1907, was but \$4,997.20; that the most that could be claimed as a duplication was \$2,800. The contention is without merit. It appears that about \$2,600 of the money was borrowed in 1898 and 1899 and \$200 more in 1900 from local banks. Other sums were borrowed later, bringing the principal up to \$4,700 in 1905. The interest that accrued on notes was added to the principal when the notes were renewed. The evidence shows that more than \$1,500 in interest accrued upon the notes. It also appears that the company carried large overdrafts at the banks, upon which overdrafts 10 per cent. interest was paid and that that interest was also included in the notes as renewals were made and that the total of principal and interest reached the sum of \$6,500. It was stated in the former opinion *

* See Commission Leaflet No. 103, p. 628.

that the accrued interest was included in the amount stated as having gone into capital. A careful re-examination of the record convinces us of the correctness of that conclusion and that in addition to the interest upon the notes the interest paid upon overdrafts was also included. The opinion should have stated that the \$6,500 included not only the amount stated as "other" income but also included the accruals of interest as indicated above, and that when settlement was made with Mr. Becker he was given stock in the company for the entire amount.

Applicant says that the Commission's statement of the amount of expenditures for operation, as shown in applicant's Exhibit 2, up to 1908, is incorrect in that it is \$100 too large. The criticism is justified as there is an error of \$100 in the figures; due allowance for which will be made.

Objection is made to the finding of the Commission that up to July 1, 1907, \$11,700 for salary and for care of a team from 1898 to 1907 was paid to Mr. Becker. It is alleged that the salary of Mr. Becker and the charge for the care of the team from January 1, 1902, to July 1, 1907, aggregating \$9,900, were for the most part not paid until 1916 and then without interest, and that one-half of this amount should not have been deducted from the receipts of the company for the period up to July 1, 1907. It is alleged that there is no evidence to justify the Commission's findings. The exhibits, however, prepared by representatives of the applicant show that in 1907, \$9,960.65 was paid out and was put in the column "other" disbursements. It is definitely shown that Mr. Becker received at least a portion of this sum; the evidence really shows that he received payment of the entire amount owing to him at that time. The assertion that Mr. Becker's claim was not paid until 1916 is not tenable and is in direct conflict with the showing of disbursements in applicant's Sub-Exhibit 5. The total dis-

bursements for the year 1916 were given as \$13,110.60. They are classified as follows:

Construction	\$607 04
Operation	3,027 47
Maintenance	2,072 71
General	1,710 20
Dividends	4,672 50
"Other"	1,020 68
<hr/>	
TOTAL	\$13,110 60

None of these accounts could have contained the \$9,900, or any part of it, except the account designated as "other" and as that was only \$1,020.68, it is obvious that Mr. Becker was not paid in that year. We think that the Commission was justified in finding that the payment was made in 1907. We are also convinced that the total investment of the company down to 1907 did not exceed \$26,063.86, as originally found, except as to the error of \$100, mentioned above.

Applicant alleges that this figure on investment in 1907 is proven erroneous by the class of property in existence and the number of stations then in the exchange. The Commission does not say the property had not cost more in 1907 than the above figure. Depreciation reserves accrued in the 9 per cent. figure used by the Commission and not realized in fact, which makes up a larger part of the cumulated 9 per cent., were, of course, borrowed by the company from the fund to which they belonged, and were used in construction. The total construction cost would in this case be the investment plus the depreciation funds used in new construction.

Complaint is made because 9 per cent. of the average amount invested in the property was set aside for maintenance and depreciation. Applicant asked that that allowance be reduced to 8 per cent. for the two items. Applicant urges that the system was especially well-built and that during its early years required very little expenditure for repairs. We readily grant that a well-constructed

system would not require repairs immediately, but to say that depreciation is not taking place from the time the property is constructed is to deny all experience. Depreciation in value results from the deterioration of the property due to age and use and is not dependent upon the time at which repairs are made, except that the longer repairs are deferred the more rapidly property deteriorates. We do not think that the allowance should be reduced.

Criticism is made of the figures used in illustration by the Commission as to the amount of the investment as shown by applicant's exhibits. The illustration was not correct in that both receipts and expenditures were understated. The total receipts for the period June 30, 1907, to January 1, 1919, were \$160,264.47 according to applicant's exhibits. From that amount there should be subtracted \$632.63, leaving \$159,631.84 to be accounted for. The deduction of \$632.63 is for miscellaneous earnings, which were derived from the sale of property and were not really earnings at all. The property consisted of poles and other material sold for the most part to telephone companies in nearby towns. To include the amount as additional income would be simply to duplicate the figures. The expenses for the period, as shown by applicant's exhibits, were as follows:

Operation	\$28,604 17
Maintenance	28,372 78
General	23,193 78
Dividends	37,605 50
"Other"	10,588 93
<hr/>	
TOTAL	\$128,365 16

The item of general expense should be apportioned between maintenance and construction, but as nearly one-half of the construction took place prior to 1908 and as the heaviest construction thereafter took place in 1908 and 1909, the general expense should be charged much more largely to operation than to construction. At least three-fourths should be charged to operation. By so doing we have total expenses, except for construction, of \$122,566.72.

Deducting the total expenses from the total income leaves a balance of \$37,065.12 as the largest amount that could have been applied to construction during the period specified. That sum is probably too large, as more than three-fourths of the general expenses were attributable to operation. It will, therefore, be seen that the Commission's original illustration was not far from the correct result; in fact, it favored the applicant.

The applicant vigorously complains that the property is too greatly depreciated by the engineering department of the Commission. We have gone over the evidence and have considered each item complained of. We think the valuation of a few items should be increased, as follows:

Real estate and buildings.....	\$130 00
Automobile	88 00
Office equipment	25 00
Bells	40 00
Torches	10 00
Wheatstone bridge	30 00
Voltmeter	6 00
Cable rings	67 00
Wire	33 45
Carbolonium	22 40
TOTAL	\$451 45

The evidence is not clear as to some of the items, but the preponderance seems to be in favor of the applicant. The Commission's original opinion * gave consideration to the fact that prices generally had increased. Further examination of the record inclines us to think that the additional allowance was not sufficiently large, particularly with regard to the distribution system. Upon a consideration of all the facts, the Commission finds that \$2,000 should be added to the increase allowed under the former opinion,* due to increased prices.

Complaint is made by applicant that there was no allowance for working capital. The point is well taken; allowance should be made for that purpose. The records show

* See Commission Leaflet No. 103, p. 628.

that the company had at the time of the inventory (including omitted property) nearly \$3,000 worth of physical property in the form of material and supplies. This represents a part of the working capital. The business done by the company amounts to about \$20,000 per year. Collections should be promptly made and the company should not allow its subscribers to fall into arrears. It should not require as much as the amount received from one month's business to supply a sufficient working capital in addition to that invested in material and supplies. Fifteen hundred dollars will be added for working capital. The records show that applicant company permits too great an accrual of rentals and that it is losing too much money by way of uncollectable revenue. We are not willing to allow a larger amount for working capital and thereby encourage lack of diligence in making collections. Applicant must keep its rentals collected promptly.

One further item which must be allowed is going concern value. It was not fully considered by the Commission in the original opinion.* It is impossible to measure it accurately, yet its existence is recognized by the highest authorities and it must be regarded as an element of value. A considerable portion was allowed indirectly under the former opinion* as it was included in the physical valuation, which was the value of much of the property in place and in actual operation. Two thousand dollars represents the Commission's best judgment as to the amount that should be added to that already included under the former opinion.*

Aggregating the amounts above set forth we have:

Omitted and undervalued items of property.....	\$442 00
Error in statement of expense in former opinion.....	100 00
Additional value due to increased unit prices.....	2,000 00
Working capital	1,500 00
Going concern value	2,000 00
TOTAL	\$6 042 00

* See Commission Leaflet No. 103, p. 628.

which the Commission finds should be added to the \$55,167.21 as found in the former opinion.* This gives a total of \$61,209.21 as the fair value of the property upon which to compute earnings. All claims of the applicant for more than this must be rejected.

The additional value of \$6,042 will require something over \$400 per year in revenue to be added to the estimate under the former opinion.* It seems to the Commission that no further increase should be made in the rate at this time, but that the applicant should endeavor to reduce its expenses sufficiently to cover the additional amount. Some of the items of expense appear rather large and perhaps a sufficient reduction can be made in them so that the necessity of adding to the rates will be obviated. It is also expected that the falling prices of materials and supplies will assist in this. At least no addition will be made at the present time, or until we have had opportunity to consider the 1921 report.

SUPPLEMENTAL ORDER.

*It is, therefore, considered and ordered by the Nebraska State Railway Commission, That dividends be paid by the applicant on a valuation of \$61,219.56 at 8 per cent. per year, and dividends are hereby expressly limited to said amount. Any deficit in revenue preventing the applicant from paying such dividends will be cared for by a further order of the Commission; any surplus that may remain after the payment of the expenses, taxes, and dividends will be treated by the applicant as provided under the order * of March 29, 1920. No order will be entered at this time concerning rates, but after the filing of its 1921 report the applicant will be permitted to make further showing in case the returns are not sufficient to cover the dividends herein specified.*

Made and entered at Lincoln, Nebraska, this eighth day of November, 1921.

* See Commission Leaflet No. 103, p. 628.

In re APPLICATION OF THE AMES CREEK TELEPHONE COM
PANY REQUESTING VALIDATION OF STOCK ISSUE.

Application No. 4388.

Decided November 10, 1921.

**Consolidation of Properties Approved — Stock Issued Without Authority
of Commission Validated.**

FINDINGS.

Applicant company herein is one of the smaller companies of the State which has been enjoying a gradual development. Starting out as a strictly mutual company, with but a few members, the company has grown and, by recent purchases, it now owns not only a considerable number of farm lines but also central exchange and switchboard and serves approximately 140 subscribers, most of them are on farm lines.

The company was authorized by this Commission to issue \$2,000 of its stock, at not less than par, April 17, 1918. Under date of February 15, 1919, a further stock issue of \$1,000 was authorized. This application is filed requesting validation of additional stock in amount of \$3,000 issued illegally without proper authority of this Commission. The company excuses itself in that officials recently elected had not properly acquainted themselves with the provisions of the law. The Commission deprecates this action on the part of the company and warns against too hasty action in the future without proper investigation as to legal requirements. The Commission is convinced, however, in this instance that the company's misstep was due entirely to ignorance of the law.

The additional sale of stock was made necessary by the company's acquiring ownership of certain other telephone properties favorably located for economical management. The Commission feels that the tendency to consolidate under conditions such as here prevailed should be encouraged and makes for greater efficiency in service and a higher degree of economy. Among the properties acquired

by the company was the central exchange and the switchboard at Obert together with farm lines of the Obert Telephone Company and the Brockeye Telephone Company. A small amount of additional construction work was also done by the company.

The Commission has made no physical valuation of the properties involved. However, the company has been able to submit a very detailed inventory of properties purchased. The inventory has been carefully considered by the engineering department of the Commission and appraised on the pre-war average cost basis and an original cost price of \$3,705.50 is found. This figure, of course, is reached without computing depreciation on the property; the company supplying no information as to the age or condition of same.

Having in mind the reproduction new cost, the finding of the engineering department as to the original construction cost, the reproduction new cost less depreciation, and the fact that the judgment of officers of the company, thoroughly familiar with the condition of the property, was that the property acquired was of sufficient value to protect the investor, the Commission finds that the request should be granted and stock validated. Such action is hereby taken.

ORDER.

It is, therefore, ordered by the Nebraska State Railway Commission, That certain stock issue of the Ames Creek Telephone Company originally issued without proper authority from this Commission be, and the same is hereby, validated.

Made and entered at Lincoln, Nebraska, this tenth day of November, 1921.

In re APPLICATION OF THE BEAVER CITY TELEPHONE COMPANY FOR AUTHORITY TO ISSUE AND SELL STOCK.

Application No. 4499.

Decided November 10, 1921.

Value Determined — Deferred Dividends Considered in Fixing Value — Issue of Stock Authorized.

FINDINGS.

Prior to January 1, 1921, the Beaver City Telephone Company was a partnership composed of A. Gaddis and W. F. Ellis, equal owners. On the date referred to the company was incorporated with an authorized capital of \$100,000. Prior to June, 1920, the property consisted of one exchange, located at Beaver City, serving approximately 600 subscribers. On that date, the partners purchased a small exchange at Edison, serving about 200 subscribers. The purchase of the second exchange and the growth of the property prompted the partners to incorporate. It is now desired to issue \$50,000 of common stock, covering both properties; \$10,000 of this being intended to represent the Edison exchange and the remaining \$40,000 to represent the Beaver City exchange.

The Commission has made several investigations of the Beaver City property and its financial history. In December, 1916, the engineering department of the Commission made a physical valuation of that exchange, which showed a cost of reproduction new of \$35,386.26 and a depreciated value of \$23,516.64. At the same time an extended study was made of the financial history of the property and as a result of all the information ascertained a fair value for rate-making purposes was fixed at \$25,000. This exceeded, as will be noted, the depreciated physical value of the property, allowance being made for working capital and other elements of value. No valuation has been made for the purposes of this application. Applicant asks for an allowance of \$40,000 of stock on the basis of the value as shown by the books, which is \$40,872. Full allowance of this claim

cannot be made, however, since it disregards wholly any depreciation existing in the physical property. As was shown by the physical valuation and inspection made by the engineers in December, 1916, the property was at that time in about 60 per cent. condition. Substantial replacements have been made since that date. The fixed or physical property, as shown by the books as of December 31, 1920, amounts to \$36,982.56. Assuming that the property has been materially improved in its condition but that it is yet in only a 70 per cent. condition, which is somewhat above the average for properties of this character, the depreciated value as of that date would have been \$25,887.40. The books show free assets in the amount of \$3,890 consisting of materials and supplies, rentals owing by subscribers and cash items. Such assets may not always be properly included in book value since they cover a variety of things and in consequence are susceptible of readjustment. The sum in this case, however, appears to represent rather tangible assets and may, therefore, be included as a part of the present value of the property. Adding the assets to the depreciated value of the physical property, we have an approximate total value of \$29,777. In the opinion of the Commission this represents within a reasonable degree of accuracy the present value of the property. As already stated, the fair value of the property as of December, 1916, was found to be \$25,000. Only partial dividends on this amount have been paid since that time. We cannot ascertain definitely the amount of these deferred dividends due to the practice for a portion of the period of the partners drawing money from the company somewhat in excess of their salaries. It is quite clear, however, that the owners are short at least \$5,000 of a reasonable return upon their investment for the years 1917, 1918, 1919 and 1920. The record clearly indicates that the property has been increased in value and it appears that the deferred dividends have been used in rebuilding and extending the property. As a matter of fact the money for this improvement appears to have come largely from this source. If to the

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fair value of \$25,000 found in 1916 we add the \$5,000 of deferred dividends, the figure of \$30,000 might properly indicate the present fair value. In this connection it should be said that the book record is not entirely reliable for the reason that it has been recast at least once during the four-year period. The Commission is of the opinion, therefore, that a fair value of not to exceed \$30,000 should be allowed for the Beaver City exchange. This includes an allowance for materials and supplies sufficiently large to cover working capital and cash and credit items in an amount sufficiently large to represent any going concern value that may inhere in the property.

The partners paid \$6,500 for the Edison exchange. In March, 1921, the engineers of the Commission made a valuation of this exchange and found an original cost of \$12,175 and a depreciated cost of \$7,673. Since purchasing the property applicant testifies that at least \$1,500 has been expended on it in repairs and replacements. Mr. Ellis, one of the partners appearing for applicant, was inclined to criticize the amount of depreciation found by the engineers, but was of the opinion that the figure of \$12,175, representing original cost, might be liberal. He testified that before purchasing the property he made a rough valuation and reached a figure of approximately \$11,000. He stated that he and his partner considered the property worth at least \$10,000 when they purchased it. It seems evident, however, that they did not take into full consideration the real condition of the plant. The valuation made by the engineers came after the replacements made by the new owners had taken place. The engineer of the Commission made a count of all the property and a careful inspection of the same. The Commission is inclined to rely on his figures since applicant offers nothing but a rough estimate as a substitute. The figure of \$8,000 as a fair value of this property would represent the plant in its present physical condition and allow for working capital and going concern value, if there is any in this plant which appears to be doubtful, since it had become trading property. In

the hands of experienced telephone men like Messrs. Gaddis and Ellis, it should develop as a reasonable paying addition to the larger property. We are, therefore, of the opinion that \$8,000 represents the fair value of this plant.

It follows, therefore, that \$38,000 in the opinion of the Commission represents the fair value of the consolidated property. An order will issue authorizing the issuance of stock in this amount.

ORDER.

It is, therefore, ordered, That the Beaver City Telephone Company be, and the same hereby is, authorized to issue and sell for cash or its equivalent \$38,000 of its common stock, it being understood that such stock shall be issued to Messrs. Gaddis and Ellis in payment for the transfer by them to the company of certain telephone properties described in the foregoing report.

It is further ordered, That upon completion of the transfer of the securities as herein provided for, full report of the transaction shall be made to this Commission, such report to be filed within ninety days from the date of this order.

Made and entered at Lincoln, Nebraska, this tenth day of November, 1921.

In re APPLICATION OF THE CUMING COUNTY INDEPENDENT
TELEPHONE COMPANY FOR AUTHORITY TO ISSUE AND SELL
STOCK.

Application No. 4400.

Decided November 12, 1921.

Issue and Sale of Stock Authorized.

FINDINGS.

Applicant operates a telephone system consisting of two exchanges with headquarters at Wisner and seeks authority to issue \$16,000 of its common stock, the proceeds

from the sale of which are to be used to cover expenditures for additions and betterments already made and for certain additions and betterments partially completed and in prospect at the time of the application. The remaining stock is to be sold for the purpose of replenishing the depreciation reserve fund in anticipation of extensive reconstruction of portions of the property; a considerable portion of which had already been definitely planned at the time of the hearing on this application.

In application No. 4709,* the Commission reviewed the financial history of the company and found that the stock outstanding at that time (March 26, 1920), in the amount of \$51,782 represented an actual investment in the property. Since that date, the company has sold a small amount of stock for most of which it had had previous authority of the Commission, but for \$850 of which no authority had been granted. The total outstanding stock at the time of the hearing, on February 2, 1921, amounted to \$53,712. Should the full amount of \$16,000 as applied for be issued, the company would thus have outstanding \$69,712.

The engineering department of the Commission made a valuation of the property of this company as of October 16, 1919, and found the original cost of the same to be \$93,201.44 and the present or depreciated value to be \$63,848.77. Since the date of that valuation the company has made additions and betterments to the property in the amount of \$2,756.48, the details of which are submitted in an exhibit in this record. It was estimated, at the time of the hearing, that approximately \$2,000 would be required in 1921 to make further extensions to the property. Applications were then pending for new telephones, most of which were on the farm lines.

In this connection it should be stated that the company keeps its books very accurately and according to the system prescribed by the Commission. It is fair to assume,

* See Commission Leaflet No. 102, p. 254.

therefore, that the record of expenditures already made for additions and betterments is correct and can be accepted at face value. It can be assumed also that the estimate of \$2,000 for further additions and betterments is reasonable and stock should be sold for the same. This would leave slightly over \$11,000 which applicant claims is required, at this time, for the purpose of replenishing the depreciation reserve. In support of this contention it shows that plans had already been completed and material ordered to rebuild the local distribution system of its exchange at Beemer. This, it was estimated, would cost approximately \$3,600. The remainder of the amount would be required to reconstruct and repair farm lines on both exchanges. These lines have been up for several years and, in keeping with the policy of this company to maintain its property in excellent condition, should now be overhauled and rebuilt.

The Commission's engineers found the present value of this property in 1919 to be \$63,848. A considerable portion of the difference between this \$63,848 and the \$93,201 may very properly be considered as the depreciation reserve accumulated out of earnings and at various times invested in the property. Naturally any money expended for improvement of the farm lines will bring up the present value of the property. In other words, if \$11,000 were to be expended for this purpose the present value of the property should thus be in the neighborhood of \$74,000. To this should be added the \$4,600 of additions and betterments previously referred to. It is apparent, therefore, that when the proceeds of the \$16,000 are expended in the manner outlined the present value of the physical plant will be very close to \$80,000, exclusive of the free assets in the form of cash, bills payable, etc. The issuance of the amount of stock, therefore, appears to be well within the value of the property and to be reasonably required by the company and will be approved.

Throughout most of its history this company has paid dividends averaging 7 per cent. It is very desirous of con-

tinuing the payment of dividends on this basis if it can be done and at the same time sell securities necessary for its further development. In view of the fact, however, that securities in various other enterprises, bearing 8 per cent., have been quite widely distributed in the community, it is feared that some difficulty may be encountered in trying to sell the 7 per cent. stock. The management, however, desires to make the attempt but asks that, where stock is sold by other than officers of the company, a commission of 5 per cent. be allowed. The desire of the company to finance on a conservative basis is commendable. If it can sell 7 per cent. securities with a payment of 5 per cent. commission, that is to be preferred over the plan of increasing the dividend rate. However, it may be necessary, after a trial, for the company to increase its dividend rate in order to properly finance its improvements. Should it succeed in disposing of the stock by the payment of a commission, we are of the opinion that the selling expense thus incurred should be paid out of operating revenues, spread over a sufficient period so as not to be a burden in any one year.

ORDER.

It is, therefore, ordered, That the Cuming County Independent Telephone Company be, and the same is hereby, authorized to issue and sell for cash, or its equivalent, \$16,000 of its common stock. Of this amount \$4,800 shall be used to cover the expenditures of a like amount for additions and betterments to the property; the proceeds of the remaining \$11,200 shall be used to replenish the depreciation reserve fund of the company.

It is further ordered, That report shall be made to the Commission of the sale of this stock and the disposition of the proceeds when \$1,000 or any multiple thereof, has been sold.

Made and entered at Lincoln, Nebraska, this twelfth day of November, 1921.

In re APPLICATION OF THE GRANT TELEPHONE COMPANY FOR
AUTHORITY TO INCREASE RATES.

Application No. 4329.

Decided November 17, 1921.

Increase in Rates Authorized.

FINDINGS.

The Grant Telephone Company, applicant herein, files this application requesting authority to increase its rates for service at its town exchange 25 cents per subscriber, per month; also for authority to increase its switching rate 15 cents per subscriber, per month. Supplementing such application is a petition signed by a majority of the town subscribers as follows:

"We the undersigned subscribers of the Grant Telephone Company, respectfully petition your honorable board to grant to the said Grant Telephone Company permission to raise their rates 25 cents per month to enable it to furnish to us, the said subscribers, twenty-four-hour, seven-day telephone service. The additional charge will be a very inconsiderable increase considering the benefits of the additional service to be rendered, and it is our earnest desire to secure such service."

A petition signed by approximately 25 per cent. of the farm subscribers, quite similar to the above, was also presented.

The application is in effect a request for an increased rate, the company using additional revenues derived therefrom in securing an additional operator whereby twenty-four-hour service may be furnished to the subscribers. The application, therefore, is presented not for the purpose of procuring additional revenue to the company but rather that a higher standard of service may be supplied to its subscribers.

The Commission has carefully checked the monthly reports which have been filed by applicant company. The company is keeping the Commission's accounting system with much accuracy and the reports are an accurate guide as to the financial condition of the company. Revenues of

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the company produced under present rates do not appear to be sufficient to provide for an additional operator whereby the added service which is requested might be furnished, without an increased rate. The present hours of service are as follows:

Week days, 7:00 A. M. to 9:00 P. M.

Sundays, 8:00 A. M. to 9:30 A. M.—6:00 P. M. to 8:00 P. M.

Increased revenues under the rates as requested per month appear as follows:

Business, 39 at an increase of 25 cents.....	\$9 75
Residence, 81 at an increase of 25 cents.....	20 25
Switching subscribers, farm lines, 111 at an increase of 15 cents	16 65
TOTAL INCREASED REVENUE	\$46 65

It thus appears that the additional revenue under the rates as requested will be just about sufficient to provide for an additional operator whereby twenty-four-hour service may be furnished. The Commission is not entirely convinced that the petitions accompanying such application fairly reflect the attitude of the majority of the subscribers of the company. The Commission has no objection to the subscribers of this company enjoying a higher standard of service. However, the Commission does not feel that under present conditions and circumstances, subscribers should be compelled to subscribe to a higher standard of service, where it is not their desire that such service be furnished them.

The question involved in this application as stated is not one of revenue, but entirely a question of the standard of service which the subscribers of this company desire and are willing to pay for. The additional service involves an added expenditure of money which the present rates do not produce.

The request of the company, and of certain subscribers of the company, and of certain subscribers of the company as reflected in the petition signed by them, will be granted

for a period of three months. If it is not the desire of the subscribers that the additional service and the rate increase be extended beyond that period the Commission will entertain complaint in the matter. If no complaint of subscribers is presented, the conclusion of the Commission will be that the additional service is desired by the subscribers, and that they are willing to pay the increased rate made necessary thereby. It is for the subscribers to say as to whether the higher standard of service shall be continued beyond the three-month period.

ORDER.

It is, therefore, ordered by the Nebraska State Railway Commission, That, effective December 1, 1921, and continuing for a period of three months, terminating March 1, 1922, unless otherwise ordered by this Commission, the Grant Telephone Company be, and the same is hereby, authorized and directed to publish and collect the following schedule of rates:

	<i>Per Month</i>
Business	\$2 75
Residence	2 00
Switching	65

It is further ordered, That applicant company herein make such arrangements as are necessary whereby, effective on the above mentioned date, the company shall furnish adequate and sufficient twenty-four-hour-service daily to its subscribers.

Made and entered at Lincoln, Nebraska, this seventeenth day of November, 1921.

NEW JERSEY.

Board of Public Utility Commissioners.

In re APPLICATION OF THE FARMERS TELEPHONE COMPANY
FOR APPROVAL AND SALE OF ITS PROPERTY AND ASSETS TO
THE NEW YORK TELEPHONE COMPANY.

Decided November 29, 1921.

Sale and Purchase of Property Authorized.

ORDER.

Application being made to the Board of Public Utility Commissioners, by the directors of the Farmers Telephone Company, as Trustees on Dissolution, by petition in writing, for approval of the sale of the property and assets of the said the Farmers Telephone Company to the New York Telephone Company, for the sum of \$126,500, as more particularly set forth in said petition, which, by reference thereto herein is made part hereof,

The Board of Public Utility Commissioners, after investigation and hearing, no reason to the contrary appearing,

Hereby approves of the sale of the property and assets of the Farmers Telephone Company to the New York Telephone Company, as prayed for in said petition.

November 29, 1921.

NEW YORK.

Public Service Commission.

In re PETITION OF THE ROCHESTER TELEPHONE CORPORATION FOR PERMISSION AND APPROVAL AND A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY OF CONSTRUCTION; AND AS TO ISSUING CAPITAL STOCK, MORTGAGE BONDS AND AN AGREEMENT AS TO NOTES, AND JOINT PETITION OF ROCHESTER TELEPHONE CORPORATION, ROCHESTER TELEPHONE COMPANY AND NEW YORK TELEPHONE COMPANY AS TO TRANSFER OF LOCAL FRANCHISES FROM THE LAST NAMED TWO COMPANIES TO THE ROCHESTER TELEPHONE CORPORATION.

Case No. 7701.

Decided July 28, 1921.

Order as to Execution of Deed of Trust Amended — Permission to Pledge Bonds as Collateral Security Granted.

AMENDATORY ORDER.

Now, therefore, upon the foregoing record,*

It is ordered as follows:

1. That Ordering Clause No. 4 of the order † entered herein under date of June 1, 1921, is hereby modified and amended to read as follows:

4. That the Rochester Telephone Corporation is hereby authorized to execute and deliver to the Union Trust Company of Rochester, as Trustee, a corporation organized and existing under the laws of the State of New York, a certain indenture, deed of trust or mortgage, dated the first day of July, 1921, upon all its plant and property, then owned and thereafter acquired, to secure an issue of first refunding mortgage 7 per cent. gold bonds to the aggregate amount of \$10,000,000. face value, to be issued in series, to be designated as "First and Refunding Mortgage 7 Per Cent. Gold Bonds, Series A" and "First and Refunding 5 Per Cent. Gold Bonds, Series B", a copy of which indenture has been filed with the Commission herein, and that the form thereof so filed is hereby

* Omitted.

† See Commission Leaflet No. 116, p. 179.

approved; *provided*, that the sinking fund provision of said mortgage shall apply only to the "First and Refunding Mortgage 7 Per Cent. Gold Bonds, Series A" herein authorized, and that said company shall have no right or authority to issue any bonds pursuant to the terms of said mortgage except as herein or hereafter authorized by the Commission.

2. That Clause No. 9 of the order * of the Commission entered herein on the first day of June, 1921, is hereby amended in such manner as to permit the Rochester Telephone Corporation to pledge its "First and Refunding Mortgage 7 Per Cent. Gold Bonds, Series A," to the aggregate amount of not exceeding \$590,000, face amount, therein authorized to be issued as collateral security for a temporary loan of \$500,000, such loan to run for a period of not longer than six months, provided that the following prohibitions are observed:

(a) That the principal of such loan for which said bonds are pledged shall in no event be less than 85 per cent. of the face value of the bonds pledged as collateral security therefor.

(b) That the notes, or the proceeds thereof, for which bonds herein authorized are pledged as collateral security, shall be used solely and exclusively for the purposes for which the bonds or their proceeds were authorized to be used as enumerated in the original order * of the Commission herein dated June 1, 1921.

3. That in all other respects the terms and conditions of said order * of June 1, 1921, shall remain in full force and effect.

July 28, 1921.

* See Commission Leaflet No. 116, p. 179.

In re PETITION OF RED HOOK TELEPHONE COMPANY UNDER
SECTION 101, PUBLIC SERVICE COMMISSION LAW, FOR
AUTHORITY TO ISSUE COMMON STOCK.

Case No. 246.

Decided November 3, 1921.

Issue of Stock Authorized.

ORDER.

Now, therefore, upon the foregoing record,*

It is ordered as follows:

1. That the Red Hook Telephone Company is hereby authorized to issue \$38,800, par value, of its common capital stock which may be sold at a price not less than the par value thereof to realize net proceeds of at least \$38,800.

2. That the proceeds of said stock so authorized, which shall not be less than \$38,800 shall be used solely and exclusively for the following purposes:

(a) New property acquired:

Real estate in Rhinebeck, New York.....	\$2,500 00
Two-story brick building and garage on this land ..	28,000 00
Office furniture and fixtures.....	1,500 00
Poles, wires, etc , purchased from the New York Telephone Company which was formerly part of the Columbia Telephone Company's plant.....	1,500 00
	<hr/>
	\$33 500 00

(b) Additional new circuits for connecting newly acquired property	5,303 00
	<hr/>
	\$38,803 00

AMOUNT UNPROVIDED FOR	\$3 00
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insofar as the same may be applicable provided:

(1) That the proceeds of such stock shall be applied toward the cost of new construction summarized in subdivision (b) hereof only insofar as such new construction is a real increase in the fixed capital of the petitioner as defined by the uniform system of accounts for telephone corporations adopted by this Commission.

* Omitted.

(2) That there shall be no charges to fixed capital on account of engineering services in connection with such construction unless such engineering services shall have been rendered either by other than the regular officers and employees of the corporation or, in a proper case, where such services may have been rendered by certain of such officers or employees under an express assignment to such construction or improvement work.

(3) That if there shall be required for the aforesaid purposes subject to the limitations herein contained, a sum less than the amounts set opposite thereto, no portion of the proceeds realized from the sale of such stock over the actual costs thereof shall be used for any purpose without the further order of this Commission.

(4) That the unit prices contained in inventory submitted under date of October 8, 1921, are not intended to be and must not be construed by the petitioner as having been determined upon by the Commission as the actual cost of the property and work to be acquired and done and thus properly chargeable to fixed capital, but are intended and shall be construed only to be a present estimate of the probable cost of such property and work, the actual cost of which must be actual expenditures made as defined by the Commission's uniform system of accounts for telephone corporations.

3. That the Red Hook Telephone Company shall for each six-months' period ending December 31 and June 30, file not more than thirty days from the end of such period a verified report which shall show:

(a) What stock has been sold during such period.

(b) The dates of such sales.

(c) To whom such stock was sold.

(d) What proceeds were realized from such sales.

(e) Any other terms and conditions of such transactions.

(f) In detail the amount of the proceeds of the stock herein authorized which has been expended during such period for the purposes specified herein, under Subdivision (a) of Ordering Clause No. 2.

(g) With respect to Subdivision (b) of Ordering Clause No. 2 of this order there shall be shown:

(1) In detail the amount of the proceeds of the stock herein authorized which has been expended during such period for the purpose specified herein and the account or accounts under the uniform system of accounts for telephone corporations to which the expenditures for such purpose have been charged, giving all details of any credits to fixed capital in connection with such expenditures.

(2) A summary of the expenditures for such purpose during the period covered by the report.

(3) A summary by the prescribed accounts showing the expenditures during such period.

In reporting under Subdivisions (2) and (3) of Section (g) of this clause there shall be further shown the expenditures of the proceeds of the stock herein authorized to the beginning of the period reported upon and a total showing such expenditures to the end of the period, together with a statement of the balances in the fixed capital accounts as of the beginning and ending of such period.

Such reports shall continue to be filed until all of said stock shall have been sold and the proceeds expended in accordance with the authority contained herein, and if during any period no stock was sold or proceeds expended the report shall set forth such fact.

4. That this proceeding is hereby continued upon the records of the Commission until the examination which is to be made of the books, accounts and property of the petitioner herein shall have been concluded and the corrections, if any, which by reason of such examination this Commission shall determine to be proper and necessary have been made, accepted by the corporation and entered in its accounts to the satisfaction of the Commission.

5. That the authority contained in this order to issue stock is upon the express condition that the petitioner accepts and agrees to comply in good faith with the provisions hereof and before any stock is issued pursuant hereto and within thirty days of the service hereof the company shall advise the Commission whether or not it accepts the same with all its terms and conditions, and such order shall be of no force or effect until such acceptance has been filed.

Finally it is determined and stated, That in the opinion of the Commission the money to be procured by the issue of said stock herein authorized is reasonably required for the purposes specified in this order and that such purposes are not in whole or in part reasonably chargeable to operating expenses or to income.

November 3, 1921.

In re APPLICATION OF THE NEW YORK TELEPHONE COMPANY
FOR AN ORDER AUTHORIZING THE ISSUANCE OF BONDS.

Case No. 362.

Decided November 10, 1921.

Execution of Mortgage and Issue of Bonds Authorized.

ORDER.

Section 1. Application having been made to the Commission by the New York Telephone Company by its petition verified October 21, 1921, under the provisions of the Public Service Commission Law for the consent of the Commission to the execution and issuance by said company of a mortgage to the Bankers Trust Company as trustee; and it appearing to the Commission that the owners of capital stock of said company to an amount equal to that required by the statute have consented to the issuance of said mortgage in the manner prescribed by law;

Section 2. *It is ordered*, That the Public Service Commission does hereby consent to the issuance and execution by the said New York Telephone Company unto said Bankers Trust Company as trustee of its refunding mortgage, dated October 1, 1921, securing the payment of the thirty-year sinking fund 6 per cent. gold debenture bonds issued by said company under a certain indenture dated February 1, 1919, and of all bonds to be issued under said mortgage maturing not later than October 1, 2021.

The form of such mortgage submitted by the said New York Telephone Company to the Commission is hereby approved and ordered filed and properly identified by a reference thereon to the resolution under the authority of which this order is issued. Said company, however, shall have no right or authority to issue any bonds pursuant to the terms of said mortgage except as may be herein or hereafter authorized by the Commission.

Section 3. Application also having been made to the Public Service Commission by the New York Telephone

Company under Section 101 of the Public Service Commission Law for the consent of the Commission to the issuance by said company of Series A bonds under said mortgage to the face amount of \$50,000,000, said bonds to be payable on the first day of October, 1941, and redeemable after ten years from October 1, 1921, at 105 percentum of the principal amount thereof with accrued interest, and to bear interest at the rate of 6 per cent. per annum, payable semi-annually; and it being now the opinion of the Commission

(1) That the money to be procured by the issue of said bonds of the said New York Telephone Company to the face amount of \$50,000,000, payable at a period of more than twelve months after the date thereof is necessary to and reasonably required by said company for the acquisition of property and the construction, completion, extension or improvement of its facilities, and particularly for the purposes which are hereafter stated in this order, and

(2) That except as to the following specified amounts of said bonds authorized to be issued hereafter to procure money for the purposes following, to-wit: \$3,500,000 or so much thereof as may be necessary to pay expenses of sale and make up discount,

said purposes are not in whole or in part reasonably chargeable to operating expenses or to income.

Section 4. *It is ordered*, That the Public Service Commission does hereby authorize the issuance by the said New York Telephone Company of \$50,000,000, face amount, of the principal of Series A bonds of the said company, dated as of October 1, 1921, maturing October 1, 1941, redeemable at any time after the first day of October, 1931, at 105 per cent. of the face value thereof besides accrued interest, and bearing interest at 6 per cent. per annum, payable semi-annually, under and in pursuance of the terms of the mortgage hereinbefore approved to be made and executed by the said New York Telephone Company to the Bankers Trust Company as trustee.

Section 5. *It is ordered*, That the said issue of bonds is authorized upon the conditions following and not otherwise, to-wit:

First: That the said New York Telephone Company shall sell the said bonds hereby authorized so as to net the said company not less than 93 per cent. of the face value of the principal thereof besides interest accrued thereon, and that the proceeds thereof shall be applied only to the following purposes, that is to say:

- (1) Toward the payment of the cost of construction and equipment of additional facilities within the State of New York in the two years subsequent to October 1, 1921, estimated at the following amounts in excess of the cost of any property that may be retired in the same period:

Station equipment	\$12,600,000
Outside plant	18,000,000
Central office equipment	42,000,000
Buildings	6,000,000
General equipment	500,000
Land	100,000
Securities of New York Telephone Realty Corporation.....	1,400,000

TOTAL \$80,600,000

as more particularly set forth in the petition..... \$46,500,000

- (2) For expenses of sale of bonds hereby authorized and to make up the discount or deficiency, if any, in the amount realized from the sale to net not less than 93 per cent. of the face amount of bonds sold for the purposes specified in Subdivision 1 hereof, not exceeding the sum of..... 3,500,000

TOTAL \$50,000,000

Second: That all discounts, commissions and expenses in connection with the approval, issuance and sale of the bonds authorized to be issued under this order, not to exceed \$3,500,000, shall be amortized out of the income of the company before the first day of October, 1941, in accordance with the provisions of the uniform system of accounts prescribed for telephone corporations.

Third: That said company shall keep separate, true and accurate accounts, showing the receipt and application in detail of the proceeds of the sale or disposal of the

bonds hereby authorized to be issued, and on or before the thirtieth day of each month the company shall make verified reports to the Commission, stating the sale or sales of said bonds during the previous month, the names of purchasers thereof, the terms and conditions of sale, the moneys realized therefrom, and the use and application of such moneys; the said accounts, vouchers and records shall be open to audit and may be audited from time to time by accountants and examiners designated for such purpose by the Commission.

The accounts shall be kept in such detail as will identify expenditures with property installed in each tax district of the State. Each extension, improvement, retirement or other change in the mortgaged property of the company shall be covered by an authorization or work order definitely designated by number, name or other distinguishing mark, issued by the officer having jurisdiction, and such authorization or work order shall describe in detail the ownership, character and location of the work to be undertaken, state the approximate dates of commencement and completion, and bear reference to (a) the authorization under which it is undertaken, (b) the detailed estimates of its cost and (c) maps, profiles, plans, diagrams, specifications, files, etc., applicable to the work. When work involves more than one capital account, as defined in the uniform system of accounts for telephone corporations, a separate work order shall be issued for work chargeable to each account. Fixed capital charges for regularly recurring work such as installation of telephone instruments and other similar projects costing less than \$250 may be covered by standing orders and in exceptional circumstances a single work order may be issued covering more than one fixed capital account.

The monthly reports to the Commission shall show total charges and credits for each project covered by a separate work order and the aggregate amount of charges and credits on standing orders, together with the number of units installed and retired under such standing orders.

Each such report shall be accompanied by the affidavit of the company's principal accounting officer that

(a) The amount expended for each and every item charged to a capital account represents the actual and reasonable charge for the property acquired or service or labor performed, and is properly chargeable to such account under the accounting rules of the Commission; and

(b) Proper credits for all property worn out, destroyed, become obsolete or for any other reason retired from service have been made for the amount and in the manner prescribed in such rules.

If the Commission as a result of its examination shall find any such report to be defective or erroneous by reason of excessive or improper charges or insufficient or omitted credits and shall give notice thereof to the company, the company shall promptly correct its accounts and restore to the fund derived from the sale of bonds hereby authorized such amount, if any, as may have been withdrawn therefrom in consequence of such erroneous entries.

Fourth: That none of the proceeds of the aforementioned bonds thereby authorized shall be expended by the said company for the payment of interest on its obligations without the consent of the Commission.

Fifth: That none of the bonds hereby authorized shall be hypothecated or pledged as collateral by the New York Telephone Company unless such pledge or hypothecation shall have been expressly approved and authorized by this Commission.

Sixth: That a duplicate original of the mortgage consented to and authorized as aforesaid, upon execution thereof be filed by the petitioner with the secretary of this Commission.

Seventh: That the authority hereby given to issue such bonds shall apply only to bonds issued by the said company on or before the thirty-first day of December, 1921.

Section 6. *It is ordered,* That this order take effect forthwith, and except as provided in the seventh paragraph of Section 5, limiting the duration of the authority to issue such bonds herein granted, continue in force until otherwise ordered by the Commission, and that within fif-

teen days after service upon it of a copy of this order said company notify this Commission whether the terms of this order are accepted and will be obeyed.

November 10, 1921.

AMENDED ORDER.

Decided November 23, 1921.

The New York Telephone Company having requested certain changes in the provisions of the order relative to the manner of keeping accounts of expenditures of proceeds and reports thereof to the Commission, and sufficient reason appearing therefor,

It is ordered, That the third subdivision of Section 5 of the order * of the Commission entered herein November 10, 1921, be, and hereby is, amended to read as follows:

Third: That said company shall keep separate, true and accurate accounts, showing the receipt and application in detail of the proceeds of the sale or disposal of the bonds hereby authorized to be issued, and shall make verified reports to the Commission within sixty days after the close of the month in which expenditures are made, stating the sale or sales of said bonds, the names of purchasers thereof, the terms and conditions of sale, the moneys realized therefrom, and the use and application of such moneys; the said accounts, vouchers and records shall be open to audit and may be audited from time to time by accountants and examiners designated for such purpose by the Commission.

The accounts shall be kept in such detail as will identify expenditures with property installed in each of the following divisions of the State, to-wit:

New York City:

1. Manhattan and Bronx
2. Kings and Queens
3. Richmond

4. Nassau and Suffolk

5. Westchester
6. Eastern division
7. Western division

* See *supra*, page 163.

as such divisions are defined in the accounting classification of the company. Each extension, improvement, retirement or other change in the mortgaged property of the company shall be covered by an authorization or work order definitely designated by number, name or other distinguishing mark, issued by the officer having jurisdiction, and such authorization or work order shall describe in detail the ownership, character and location of the work to be undertaken, and, except in connection with work done under standing or routine estimates, shall state the approximate dates of commencement and completion, and bear reference to (a) the authorization under which it is undertaken, (b) the detailed estimates of its cost and (c) maps, profiles, plans, diagrams, specifications, files, etc., applicable to the work. Each estimate or work order shall indicate specifically the work chargeable to each fixed capital account as defined in the uniform system of accounts for telephone corporations. Fixed capital charges for regularly recurring work such as installations of telephone instruments and other similar projects estimated to cost, for each job, less than \$2,000, or in connection with block and house cable work in Manhattan and Bronx Division and private branch exchange installations throughout the State, less than \$3,000, may be covered by standing orders or routine estimates.

The monthly reports to the Commission shall show total charges and credits for each estimate, subdivided by accounts, and the aggregate amount of charges and credits for each estimate and account. Each such report shall be accompanied by the affidavit of the company's principal accounting officer that

(a) The amount expended for each and every item charged to a capital account represents the actual and reasonable charge for the property acquired or service or labor performed, and is properly chargeable to such account under the accounting rules of the Commission; and

(b) Proper credits for all property worn out, destroyed, become obsolete or for any other reason retired from service have been made for the amount and in the manner prescribed in such rules.

If the Commission as a result of its examination, shall find any such report to be defective or erroneous by reason of excessive or improper charges or insufficient or omitted credits and shall give notice thereof to the company, the company shall promptly correct its accounts and restore to the fund derived from the sale of bonds hereby authorized such amount, if any, as may have been withdrawn therefrom in consequence of such erroneous entries. The company shall make the required corrections or adjustments in the next succeeding report to be filed under the terms of this order.

Further ordered, That this order take effect *nunc pro tunc* as of November 10, 1921.

November 23, 1921.

OHIO.

The Public Utilities Commission.

In re PROPOSED INCREASED RATES OF THE OHIO BELL
TELEPHONE COMPANY FOR LOCAL EXCHANGE SERVICE AT
FINDLAY.

Decided November 1, 1921.

**Suspension Order Rescinded and Increased Schedule of Rates Permitted
to Become Effective.**

ORDER.

The Commission having heretofore, upon complaint of the city of Findlay, Ohio, by order duly made and entered herein, suspended the going into effect of the proposed increased rates for telephone service contained in a schedule designated P. U. C. O. No. 4, filed by The Ohio Bell Telephone Company to become effective May 1, 1921, and entered upon a hearing and investigation to determine the propriety of said proposed increased rates;

This day, after full hearing, due notice of the time and place of which was given to all parties in interest, said matter came on for final consideration upon the evidence submitted at the hearings herein had, and the Commission's independent investigation and inquiry into said matters.

Upon consideration whereof, and being fully advised in the premises, the Commission, taking into consideration the value of respondent's property, used and useful for the convenience of the public in the furnishing of said service, the cost of furnishing said service, and the necessity of making reservations from income for depreciation and contingencies, finds that the proposed rates and charges for the furnishing of telephone service set forth and contained in schedule designated P. U. C. O. No. 4, of The Ohio Bell Telephone Company are not unjust, unreasonable or excessive, and will not yield said company a greater rate of return than it is entitled to earn upon its said property.

It is further ordered, That said The Sidney Telephone Company be, and hereby it is, authorized to issue its 8 per cent. cumulative preferred capital stock of the par value of \$50,000, and that said capital stock be sold for the highest price obtainable, but not less than 85 per centum of the par value thereof.

It is further ordered, That any discount arising from a sale of said capital stock for less than the par value thereof be extinguished pursuant to the rules and regulations heretofore prescribed by this Commission.

It is further ordered, That the proceeds arising from the sale of said capital stock be devoted to and used for the following purposes, and no others, to-wit:

(a) \$12,000 to reimburse applicant's treasury, in part, for the sum of \$18,252.91, not procured by the issue of stock, bonds, notes or other evidences of indebtedness, actually expended therefrom, within the period October 1, 1918, to March 31, 1921, inclusive, for the construction of additions, extensions and improvements to its facilities, and

(b) The balance of such proceeds to be applied toward the payment of the cost of the following additions, extensions and improvements to its facilities, the costs of which have been estimated at the following sums, viz:

New underground conduits	\$5,000 00
Lot for exchange building.....	16,500 00
Additional exchange equipment.....	14,000 00
New exchange building	18,000 00
TOTAL	\$53,500 00

It is further ordered, That the applicant make verified report to this Commission semi-annually, within fifteen days after the close of each calendar, semi-annual period, of the issue and disposition of said capital stock and, in reasonable detail, the expenditure of the proceeds thereof pursuant to the terms and conditions of this order.

Dated at Columbus, Ohio, this third day of November, 1921.

In re PROPOSED INCREASED RATES OF THE OHIO BELL TELEPHONE COMPANY FOR LOCAL EXCHANGE SERVICE AT ZANESVILLE.

Advanced Utility Rate Proceeding No. 53.

Decided November 10, 1921.

City's Petition for Rehearing Denied.

ORDER.

This day, this matter came on for further consideration upon the petition of the city of Zanesville, Ohio, and C. U. Shryock, asking a rehearing of said proceeding for the reasons and upon the grounds set forth in their said petition.

The Commission, being fully advised in the premises, finds that sufficient cause has not been made to appear for a rehearing of this proceeding.

It is, therefore, ordered, That the said petition for a rehearing of this proceeding upon the grounds and for the reasons set forth therein, be, and hereby the same is, denied.

To which order of the Commission denying their said petition for a rehearing of this proceeding, the said city of Zanesville, Ohio, by its city solicitor, and the said C. U. Shryock, each then excepted, and here now except, and their exceptions here are noted of record.

Dated at Columbus, Ohio, this tenth day of November, 1921.

In re PROPOSED INCREASED RATES OF THE NEWARK TELEPHONE COMPANY FOR LOCAL EXCHANGE SERVICE AT GRATIOT, GLENFORD, HANOVER, ST. LOUISVILLE AND SOMERSET.

Advanced Utility Rate Proceeding No. 52.

Decided November 14, 1921.

Suspension Order Rescinded — Increased Rates Permitted to Become Effective — Repairs and Improvements Ordered.

ORDER.

The Commission having heretofore, upon complaint of The Licking County Farm Bureau, *et al.*, by order duly made and entered herein, suspended the going into effect of the proposed increased rates for telephone service contained in a schedule designated P. U. C. O. No. 3, applying to Glenford, Hanover, St. Louisville and Somerset exchanges, filed by The Newark Telephone Company to become effective May 1, 1921, (which proposed rates were thereafter collected by said respondent under authority of its undertaking duly filed herein) and entered upon a hearing and investigation to determine the propriety of said proposed increased rates.

This day, after full hearing, due notice of the time and place of which was given to all parties in interest, said matter came on for final consideration upon the evidence submitted at the hearing herein had and the report of the Commission's engineers and experts of their independent investigation and inquiry into said matter.

Upon consideration whereof, and being fully advised in the premises, the Commission finds, taking into consideration the value of the respondent's property used and useful for the convenience of the public in the furnishing of local exchange service at Glenford, Hanover, St. Louisville and Somerset, Ohio, the cost of furnishing said service, and the necessity of making reservations from income for depreciation and contingencies, that the rates, charges,

tolls and rentals set forth in its said Schedule P. U. C. O. No. 3, are not unjust, excessive and unreasonable, and will not yield the said respondent a greater rate of return than it is entitled to earn upon its said property.

It is, therefore, ordered, That the order heretofore made and entered herein, insofar as it suspended the going into effect of the rates and charges contained in said Schedule P. U. C. O. No. 3, filed by said The Newark Telephone Company, be, and hereby it is, rescinded.

And the Commission coming now to consider the complaint of the protestants herein as to the service and facilities of said The Newark Telephone Company in its Glenford, Hanover, St. Louisville and Somerset exchange areas, further finds that the following repairs and improvements in said company's facilities in said exchange areas are immediately necessary and should be made and provided by said respondent:

1. Trim all trees away from its aerial wires, wherever situate.
2. Repair or replace cords, plugs and jacks on the switchboards where needed.
3. Replace all missing insulators and bad cross-arms.
4. Provide means for taking care of trouble more promptly.

It is, therefore, further ordered, That said The Newark Telephone Company be, and hereby it is, notified, directed and required, forthwith upon the service of this order, to begin the work of repairing and improving its plants and facilities in the Glenford, Hanover, St. Louisville and Somerset exchange areas, which work shall consist, primarily, of the carrying out of the things hereinbefore found to be immediately necessary, and to continue the same until all of the said property has been placed in condition to render adequate and efficient service.

It is further ordered, That said respondent report to this Commission monthly, the progress of such work, continuing such reports until all of the improvements herein provided have been completed.

In re PROPOSED INCREASED RATES OF THE NEWARK TELEPHONE COMPANY FOR LOCAL EXCHANGE SERVICE AT GRATIOT, GLENFORD, HANOVER, ST. LOUISVILLE AND SOMERSET.

Advanced Utility Rate Proceeding No. 52.

Decided November 14, 1921.

Suspension Order Rescinded — Increased Rates Permitted to Become Effective — Repairs and Improvements Ordered.

ORDER.

The Commission having heretofore, upon complaint of The Licking County Farm Bureau, *et al.*, by order duly made and entered herein, suspended the going into effect of the proposed increased rates for telephone service contained in a schedule designated P. U. C. O. No. 3, applying to Glenford, Hanover, St. Louisville and Somerset exchanges, filed by The Newark Telephone Company to become effective May 1, 1921, (which proposed rates were thereafter collected by said respondent under authority of its undertaking duly filed herein) and entered upon a hearing and investigation to determine the propriety of said proposed increased rates.

This day, after full hearing, due notice of the time and place of which was given to all parties in interest, said matter came on for final consideration upon the evidence submitted at the hearing herein had and the report of the Commission's engineers and experts of their independent investigation and inquiry into said matter.

Upon consideration whereof, and being fully advised in the premises, the Commission finds, taking into consideration the value of the respondent's property used and useful for the convenience of the public in the furnishing of local exchange service at Glenford, Hanover, St. Louisville and Somerset, Ohio, the cost of furnishing said service, and the necessity of making reservations from income for depreciation and contingencies, that the rates, charges,

tolls and rentals set forth in its said Schedule P. U. C. O. No. 3, are not unjust, excessive and unreasonable, and will not yield the said respondent a greater rate of return than it is entitled to earn upon its said property.

It is, therefore, ordered, That the order heretofore made and entered herein, insofar as it suspended the going into effect of the rates and charges contained in said Schedule P. U. C. O. No. 3, filed by said The Newark Telephone Company, be, and hereby it is, rescinded.

And the Commission coming now to consider the complaint of the protestants herein as to the service and facilities of said The Newark Telephone Company in its Glenford, Hanover, St. Louisville and Somerset exchange areas, further finds that the following repairs and improvements in said company's facilities in said exchange areas are immediately necessary and should be made and provided by said respondent:

1. Trim all trees away from its aerial wires, wherever situate.
2. Repair or replace cords plugs and jacks on the switchboards where needed.
3. Replace all missing insulators and bad cross-arms.
4. Provide means for taking care of trouble more promptly.

It is, therefore, further ordered, That said The Newark Telephone Company be, and hereby it is, notified, directed and required, forthwith upon the service of this order, to begin the work of repairing and improving its plants and facilities in the Glenford, Hanover, St. Louisville and Somerset exchange areas, which work shall consist, primarily, of the carrying out of the things hereinbefore found to be immediately necessary, and to continue the same until all of the said property has been placed in condition to render adequate and efficient service.

It is further ordered, That said respondent report to this Commission monthly, the progress of such work, continuing such reports until all of the improvements herein provided have been completed.

It is further ordered, That the Commission retain jurisdiction of this matter for the purpose of inspecting the company's work, and the making of such further orders with regard to rates or service as may hereafter be found necessary and proper in the premises.

Dated at Columbus, Ohio, this fourteenth day of November, 1921.

In re PROPOSED INCREASED RATES OF THE NEWARK TELEPHONE COMPANY FOR LOCAL EXCHANGE SERVICE AT GRATIOT.

Advanced Utility Rate Proceeding No. 56.

Decided November 15, 1921.

Application for Increased Rates Suspended Pending Making of Improvements as Ordered.

ORDER.

The Commission having heretofore, upon complaint filed by T. F. Hamilton, J. A. Mack, *et al.* by order duly made and entered herein, suspended the going into effect of the proposed increased rates for telephone service contained in schedules designated Original, Page No. 5 and Original, Page No. 6 to P. U. C. O. No. 3, applying to Gratiot exchange, filed by The Newark Telephone Company to become effective July 5, 1921, (which proposed rates were thereafter collected by said respondent under authority of its undertaking duly filed herein), and entered upon a hearing and investigation to determine the propriety of said proposed increased rates, and the adequacy of respondent's service in the exchange area of Gratiot, Ohio.

This day, after full hearing, due notice of the time and place of which was given to all parties in interest, said matter came on for consideration upon the evidence submitted at the hearing herein had, and the report of this Commission's engineers and experts of their independent investigation and inquiry into said matter.

Upon consideration whereof, and being fully advised in the premises, the Commission finds, taking into consideration the value of respondent's property used and useful for the convenience of the public in the furnishing of local exchange service at Gratiot, Ohio, the cost of furnishing said service, and the necessity of making reservations from income for depreciation and contingencies, that the rates, charges, tolls and rentals imposed and collected by the respondent prior to the effective date of the schedules herein under investigation, were not adequate to provide the respondent a reasonable return upon said property so devoted to the use of the public in the furnishing of telephonic service in the exchange area of Gratiot, Ohio; that based solely upon said financial bases aforesaid the rates, charges, tolls and rentals set forth in said schedules designated Original, Page No. 5 and Original, Page No. 6 to P. U. C. O. No. 3, are not unreasonable; but that the service now furnished by said respondent in said exchange area of Gratiot, Ohio, is and has been inadequate and inefficient.

It is, therefore, ordered, That said The Newark Telephone Company be, and hereby it is, notified, directed and required, forthwith upon the service of this order to institute the following program of improvements and betterments, viz:

1. Trim all trees where in contact with aerial wire, being particularly careful to give proper clearance in all cases.
2. Reset, straighten and guy poles where necessary.
3. Replace all broken cross-arms and all broken or missing insulators.
4. Pull up slack wire and replace rusty and broken wire.
5. Make complete inspection of all subscribers' stations, eliminate all bad wiring conditions; and replace deteriorated batteries.
6. Make immediate inspection of the switchboard plugs, cords, jacks and keys, and put same in good condition. Particular attention should be given to the repair of the ring-off drops; and switchboard should be thoroughly cleaned.
7. Thoroughly instruct the operators in the matter of taking down cords as soon as possible after conversations are ended; thus alleviating to a large degree the congested condition now being complained of by the subscribers.

to complete the same at the earliest possible date, and to thereupon report such fact to this Commission.

It is further ordered, That jurisdiction of this matter be retained for the purpose of inspecting the respondent's improvements, when the completion of the same is reported, and the making of such further order or orders as to rates, or upon any other matter, as may be necessary and proper herein.

Dated at Columbus, Ohio, this fifteenth day of November, 1921.

THE CITY OF LIMA v. THE LIMA TELEPHONE AND TELEGRAPH
COMPANY.

No. 443.

Decided November 18, 1921.

**Value Determined — Value of Service and Efficient Administration
Considered in Deciding the Rate of Return — Increase
in Rates Authorized.**

FINDINGS ON APPLICATION FOR MODIFICATION OF FORMER
ORDER.

On June 20, 1921, The Lima Telephone and Telegraph Company filed its application with the Commission, representing that, by reason of many changes in the conditions under which it furnished its service and because of the extremely heavy traffic, the number of calls per telephone station, the quality of the service required by the public, and the large expenditures to provide extensions and additions to plant since the date of the last order of the Commission in said cause which largely increased the capital charges of the company, it is necessary that changes be made in the schedule of rates prescribed by Order No. 443,* as modified under dates of June 12, 1919† and April

* See Commission Leaflet No. 65, p. 1319.

† See Commission Leaflet No. 92, p. 805.

17, 1920,* and praying that an order may issue, modifying the last above referred to order and approving a new schedule of rates, a copy of which is attached to the application, marked Exhibit A, which carries increases in certain rates prescribed by the order of the Commission dated April 17, 1920.*

Thereupon, the city of Lima, Ohio, by its solicitor, filed its protest against said increase of rates carried in the schedule, as asked for by the company, and prayed that the application be denied, basing its protest upon the grounds that the proposed rates are unfair, unjust and unreasonable, and that the conditions under which the company's service to the city is now being furnished are more favorable to the company than existed on the seventeenth day of April, 1920, the day the order authorizing the present rates was promulgated.

Hearing was duly had and the matter finally submitted for determination.

The Commission having, in the original hearing of said cause, made a complete appraisal of the company's property, and the same having been sustained by the Supreme Court in an appeal taken to that Court from the decision of the Commission, a determination of the value of the property, used and useful in the rendering of service to the public, was not difficult for the purpose of our guidance and finding on the present application for rate-making purposes; the all-important question left, being, "What rate of return should the company be allowed to earn upon the value found to be devoted to the public use in rendering service thereto?"

After a thorough investigation of the additions and betterments to the property of the company since the last appraisal, the Commission finds the total reproduction value of said property, as of December 31, 1919, to be \$1,075,721.17 and that, from January 1, 1920, to August 31, 1921, net additions of \$217,870.14 have been provided,

* See Commission Leaflet No. 102, p. 319.

and that the present value of the property, as of August 31, 1921, is \$1,146,021.09, the said present value being the amount upon which we find the company is now entitled to earn a fair rate of return.

The revenue of the company for the year ended August 31, 1921, was \$330,880.19, while the expenses and deductions for the same period were \$193,259.66, leaving a balance for depreciation, interest and dividends of \$137,620.53 and, deducting depreciation at 5 per cent. of the reproduction value, or \$64,679.58, a balance of \$72,940.95 for interest and dividends, which amount gives the company a rate of return under its present schedule of 6.4 per cent.

The estimated increase in annual revenues from the company's proposed schedule of rates would amount to \$49,877 after deducting 1.2 per cent. for excise tax, which, if granted, would allow the company 10.7 per cent. net return.

The Commission would be most reluctant to grant any increase to the applicant company at this time in view of the present day conditions, were it not for the fact that the testimony adduced at the hearings and the admission of counsel for the city conclusively discloses that the service of the Lima company is equal to, if not the most efficient and satisfactory of any telephone company in this country.

We recognize that a severe business depression exists; that there is a vast amount of unemployment, and, notwithstanding the high wages, shorter hours and easier working conditions that have existed for several years, we, as a Commission, must, nevertheless, take the real facts as they exist in each individual case and do justice accordingly.

We do not find from the testimony that the operating expenses of the Lima company have been or can, in the near future, be materially reduced, and maintain the high degree of efficiency in service which the thriving and prosperous city of Lima demands and is now enjoying at the hands of its telephone company and we, therefore, cannot agree with the contention of the solicitor for the

city that conditions are more favorable to the company than at the time of the approval of the present rate schedule.

One of the important elements to be considered by us in fixing a fair rate of return, is the value of the service rendered the public by this company, and the facts disclose that the existing rates for the Lima exchange are low as compared with exchanges having less subscribers in this State.

We believe, and it is our judgment, that honest, economical and efficient administration of the affairs of a public utility should be commended by us, and should be considered in deciding the amount of a fair rate of return upon the company's property, since to hold otherwise would be but to penalize economical, efficient and honest management, and encourage extravagance and lax methods in the management thereof; and, in the instant case, we are more than satisfied that the Lima Company's affairs have been honestly, economically and efficiently administered and, in arriving at our conclusions herein, have given due consideration to those facts.

Coming now to consider the application of the company for approval of the schedule of rates sought to be allowed, and the protest of the city of Lima, and having considered the efficiency and character of the service rendered, and having the value of the property of said company actually used and useful in furnishing telephonic service for the convenience of the public, and having taken into consideration the necessities of the company from the standpoint of an income adequate to attract new capital to meet the demands for extensions and additions to its facilities, as well as contingencies, and all other matters which we deemed proper, the Commission finds:

That the rates asked to be approved by the applicant company, as set forth in the schedule filed with the application, will produce such additional income for the company as to give it more than a proper rate of return upon its property devoted to the use of the public, and the return

of 10.7 per cent. which would result from the adoption of the said proposed schedule as a whole, would make said proposed rates excessive and unreasonable, and

That the company is entitled to a rate of return in excess of that now obtained by it from its present rates, and that the rate schedule proposed by the company, attached to its application and marked P. U. C. O. No. 1, 7th Revised Page No. 2, 1st Revised Page No. 2-A and 6th Revised Page No. 3, should be approved with the reductions listed below, viz:

ANNUAL NET RATES.

One-party, business	\$72 00 instead of \$78 00
Two-party, business	60 00 instead of 66 00
One-party, residence	33 00 instead of 36 00
Two-party, residence	24 00 instead of 30 00
Four-party, residence	21 00 instead of 24 00
P. B. X, trunk, business.....	96 00 instead of 108 00
P. B. X. trunk, residence.....	69 00 instead of 81 00
Intercommunicating, business	96 00 instead of 108 00
Machine switching, business.....	96 00 instead of 108 00

which rates the Commission finds to be just and reasonable.

An order will enter accordingly.

THIRD AMENDMENT TO ORDER.

This day after full hearing, due notice of the time and place of which was given to all parties in interest, this matter came on for further consideration upon the application of The Lima Telephone and Telegraph Company for such further modification and amendment of the order,* made and entered herein as of date March 9, 1917, and as supplemented and amended under the dates of June 12, 1919,† and April 17, 1920,‡ as will permit and authorize said The Lima Telephone and Telegraph Company to establish, in lieu of the rates, charges, tolls and rentals for

* See Commission Leaflet No. 65, p. 1319.

† See Commission Leaflet No. 92, p. 805.

‡ See Commission Leaflet No. 102, p. 319.

the furnishing of its service fixed and prescribed by said order as so amended, the rates, charges, tolls and rentals set forth in the proposed schedule appended to said application and marked for identification, P. U. C. O. No. 1, 7th Revised Page No. 2, 1st Revised Page No. 2-A and 6th Revised Page No. 3, the objections thereto of the city of Lima, Ohio, and the evidence offered at said hearing.

The Commission, being fully advised in the premises having this day made and filed in writing its findings of fact herein, hereby further finds, taking into consideration the value of defendant's property, used and useful for the convenience of the public, in the furnishing of its service, the cost and efficiency of such service, and the necessary amounts which should be set aside from income for depreciation and contingencies, together with all other matters which this Commission deemed proper, that the rates, charges, tolls and rentals hereinafter set forth, are not unjust, excessive or unreasonable, and will not yield a rate of return greater than said The Lima Telephone and Telegraph Company is entitled to earn upon its property so devoted to the service of the public, viz:

The rates, charges, tolls and rentals set forth in the said proposed schedule, marked and identified as P. U. C. O. No. 1, 7th Revised Page No. 2, 1st Revised Page No. 2-A and 6th Revised Page No. 3, appended to the instant application, (which said proposed schedule hereby is made a part of this order by reference), save and except the rentals for the following classes of service, which rentals, insofar as they exceed the following net annual rentals, hereby are found and determined to be unjust, excessive and unreasonable, to-wit:

Business, one-party	\$72 00
Business, two-party	60 00
Residence, one-party	33 00
Residence, two-party	24 00
Residence, four-party	21 00
P. B. X. trunk, business.....	96 00
P. B. X. trunk, residence.....	69 00
Intercommunicating business	96 00
Machine switching, business	96 00

It is, therefore, ordered, That the order,* made and entered herein as of date March 9, 1917, and as amended June 12, 1919,† and April 17, 1920,‡ be, and hereby it is, further modified and amended to permit and authorize said The Lima Telephone and Telegraph Company to establish, effective December 1, 1921, and thereafter maintain, impose and collect for the furnishing of its telephonic service, the rates, charges, tolls and rentals hereinbefore found and determined to be not unjust, unreasonable nor excessive, instead and in lieu of the rates, charges, tolls and rentals so fixed and prescribed by said order, as heretofore amended.

It is further ordered, That schedules be filed accordingly.

Dated at Columbus, Ohio, this eighteenth day of November, 1921.

In re APPLICATION OF THE MIDDLETOWN TELEPHONE COMPANY FOR AUTHORITY TO SELL, AND OF THE OHIO BELL TELEPHONE COMPANY FOR AUTHORITY TO PURCHASE, THE PROPERTY AND OTHER ASSETS OF THE MIDDLETOWN TELEPHONE COMPANY.

No. 2408.

Decided November 29, 1921.

Sale and Purchase of Property Authorized.

ORDER.

This day, after full hearing, due notice of the time and place of which was given to all parties in interest, this matter came on for consideration upon the joint application of The Middletown Telephone Company and The Ohio Bell Telephone Company, (corporations duly organized and existing under and by virtue of the laws of the State of

* See Commission Leaflet No. 65, p. 1319.

† See Commission Leaflet No. 92, p. 805.

‡ See Commission Leaflet No. 102, p. 319.

Ohio), asking the consent to and approval, by this Commission, of the sale, by said first-named applicant, and the purchase and acquisition, by the latter, of all the property, rights and other assets of said The Middletown Telephone Company.

The Commission, being fully advised in the premises, finds that the public will, upon the consummation of such sale and purchase of said public utility property, be furnished adequate service for a reasonable and just rate, rental, toll or charge therefor, and is satisfied that its consent and authority for such sale and purchase of said property should be granted.

It is, therefore, ordered, That said The Middletown Telephone Company be, and hereby it is, authorized to sell and convey to The Ohio Bell Telephone Company all of its property, rights and other assets; and said The Ohio Bell Telephone Company hereby is authorized to purchase and acquire the same, and to pay therefor the agreed consideration of \$240,121.12 and an additional amount equal to the amount of the increase in the said property and other assets, less the increase in its operating liabilities, from August 31, 1921, to the date of the transfer.

It is further ordered, That, forthwith upon the exercise of the authority herein granted, said parties file with this Commission schedules providing for their respective withdrawal from and inauguration of service within the territory now served by means of said property.

It is further ordered, That nothing herein shall be construed to be a consent to or approval, by this Commission, of any increase in rates or diminution of service within the territory now served by means of said property; nor shall the findings hereinbefore set forth as to rates and service, nor the acquiescence in the passing of said agreed consideration, be binding upon this Commission in any future proceeding involving rates or service.

Dated at Columbus, Ohio, this twenty-ninth day of November, 1921.

OKLAHOMA.

Corporation Commission.

SOUTHWESTERN BELL TELEPHONE COMPANY v. WANN TELEPHONE COMPANY.

Cause No. 4204 — Citation No. 925.

Decided November 16, 1921.

Fine Imposed by Former Order Remitted.

JOURNAL ENTRY.

On the sixth day of September, 1921,* pursuant to an affidavit filed by the Southwestern Bell Telephone Company charging defendant, the Wann Telephone Company, with the violation of this Commission's Orders Nos. 912† and 1668,‡ and after citation having been issued by the Commission and said defendant defaulting in appearance, a fine of \$500 and costs was assessed against said Wann Telephone Company for the violation of said orders.

On November 9, 1921, the defendant, Wann Telephone Company, filed with the Commission its petition praying that said fine be set aside, revoked and held for naught. The petition alleges that the defendant has since the imposition of said fine fully complied with the orders of the Commission, the violation of which was charged in the affidavit and citation, by settling fully its accounts with said Southwestern Bell Telephone Company in the sum of \$362.26; that defendant has paid all accrued costs in said action and stands ready and willing to pay any additional or further costs that may have accrued or may accrue in said cause and abide by and perform any order in connection with said cause which this Commission in its judgment may see fit to impose.

* See Commission Leaflet No. 119, p. 1207.

† See Commission Leaflet No. 41, p. 1229.

‡ See Commission Leaflet No. 106, p. 359.

C. L. 121]

It appearing to the Commission that said defendant, as alleged in the petition filed by it, has fully settled for all moneys collected by it due and payable to the Southwestern Bell Telephone Company and has paid the cost of this proceeding to the secretary of this Commission and stands ready and willing to pay additional accruing costs, if any, and it further appearing that no substantial benefit or advantage would accrue either to the State of Oklahoma or to the Southwestern Bell Telephone Company by reason of the enforcement of said fine, but, upon the other hand, no doubt would result in a burden which would finally have to be assumed and carried by the patrons of the defendant Wann Telephone Company, it is the opinion of the Commission that said fine should be remitted, revoked, set aside and held for naught as prayed for in said petition.

It is, therefore, the order of the Commission, premises considered, That the fine of \$500 assessed and imposed against the Wann Telephone Company the sixth day of September, 1921, for violation of Orders Nos. 912* and 1668† be, and it is hereby, in all things remitted, revoked, set aside and held for naught.

Done at Oklahoma City this the sixteenth day of November, 1921.

* See Commission Leaflet No. 41, p. 1229.

† See Commission Leaflet No. 106, p. 359.

SOUTH DAKOTA.

Board of Railroad Commissioners.

In re APPLICATION OF THE COMO TELEPHONE COMPANY FOR
AUTHORITY TO INCREASE RATES.

Docket No. 4495.

Decided November 9, 1921.

Increased Rates Placed in Effect by Subscribers Authorized As Legal Rates.

REPORT.

The application of the Como Telephone Company for authority to increase its telephone rental rates, was filed with the Board of Railroad Commissioners on January 10, 1921. Under date of July 25, 1921, due and sufficient notice was given by an order of the Board, setting the matter of the application down for hearing at the court house at Miller, the county seat of Hand County.

The Como Telephone Company owns and operates rural party lines in southern Hand County, South Dakota, charging a rental heretofore of \$15.00 per year, per telephone. According to the information received by the Board from the secretary of the Como Telephone Company, the subscribers, who are also stockholders, at a regular meeting voted to raise the rental rate from \$15.00 to \$18.00 per year, which rate was accordingly placed in effect and which rate has apparently been charged and collected for more than six months last passed.

The Board has completed its investigation of all the facts before it and there appears to be no objection to paying the increased rate on the part of the subscribers of the Como Telephone Company. The Board therefore concludes that the application should be granted and that an order should be entered herein approving a net rural party line rate not exceeding \$1.50 per month, per telephone.

Done in regular session at Pierre, the Capital, this ninth day of November, 1921.

ORDER.

On this date the Board having completed its investigation and made and filed its report containing its findings of fact and conclusions thereon, a copy whereof is hereto annexed, hereby referred to and made a part hereof, and sufficient cause for this order appearing,

It is, therefore, ordered, That the Como Telephone Company be, and it is hereby, authorized to establish, file and put into effect, a net telephone rate of \$18.00 per year, covering the service furnished to subscribers upon its rural party line.

November 9, 1921.

UTAH.

Public Utilities Commission.

In re APPLICATION OF THE IRON COUNTY TELEPHONE COMPANY FOR PERMISSION TO INCREASE ITS EXCHANGE AND PAY STATION RATES.

Case No. 420.

Decided November 3, 1921.

Increase in Rates Denied.

REPORT.

In an application filed April 27, 1921, the Iron County Telephone Company, a corporation, engaged in the commercial telephone business in Iron and Washington Counties, Utah, with its principal place of business at Cedar City, Utah, alleges that the existing exchange rates have never been adequate, and are practically those established by the company at its organization in 1908.

Applicant alleges that during the period 1917 to 1920, while expenses were rising, toll revenues increased in like ratio; but that during the first quarter of 1921, toll revenues decreased to approximately that of 1916, and that the burden of carrying on the business has heretofore fallen on toll revenues. However, it is alleged if this petition be granted, revenues will be increased approximately \$200 per month.

Applicant further alleges that the outside telephone plant, contiguous to Cedar City, was rebuilt and enlarged during 1920, and suitable real estate acquired in both Cedar City and Parowan for the location of central offices; and that the book value of the property now used in conducting the business is \$31,477.10, plus \$4,815.88, for real estate acquired for future use.

It is further alleged by applicant that on account of an ample reserve and regular payment of dividends, stock is selling at a premium of 25 per cent.; that to secure cash for the necessary betterments and extensions, applicant must continue to offer stock to the public, the sale of said

stock depending upon the ability of the utility to earn a fair return, applicant alleging that it is paying 9 to 10 per cent. interest for loans.

The case came on regularly for hearing at Cedar City, Utah, July 13, 1921.

The city of Parowan protested the granting of the application upon the ground that the rates as at present charged are adequate, alleging that commodity and labor costs having declined, there exists no good reason for the granting of said increase in rates.

J. T. Woodbury, a witness on behalf of applicant, testified as to the financial history of the company; its revenues and expenses, and the present physical operating condition of the property. As part of Mr. Woodbury's testimony, there was introduced as Exhibit A, comparative balance sheets and income statements as of December 31, 1920, and June 30, 1921, as follows:

COMPARATIVE BALANCE SHEETS.

<i>Assets.</i>		
<i>Account</i>	<i>December 31, 1920</i>	<i>June 30, 1921</i>
100 Plant and equipment	\$25,059 01	\$27,359 01
106 Other property	7,115 88	4,668 43
100 New plant .....	.....	120 17
115 Cash	210 11	558 22
120 Notes receivable .....	.....	.....
125 Due from subscribers and agents.....	2,215 61	2,681 13
130 Accounts receivable	124 34	230 01
135 Materials and supplies.....	1,443 44	1,444 24
	<hr/>	<hr/>
	\$36,168 39	\$37,070 21
<i>Liabilities.</i>		
160 Capital stock	\$9,504 65	\$12,438 32
170 Notes payable	7,690 00	5,546 63
175 Accounts payable	948 19	394 10
180 Accrued liabilities not due (taxes and interest .....	.....	468 14
185 Depreciation reserve	9,360 09	10,395 27
190 Other credit accounts (premium on capital stock) .....	.....	733 35
195 Surplus	8,665 46	7,085 40
	<hr/>	<hr/>
	\$36,168 39	\$37,070 21

Income Statement.

<i>Account</i>	<i>December 31, 1920</i>	<i>June 30, 1921</i>
300 Telephone operating revenues.....	\$13,256 77	\$5,866 22
330 Telephone operating expenses.....	11,056 04	5,647 08
NET TELEPHONE OPERATING INCOME.	\$2,200 73	\$219 14
350 Taxes	687 07	353 50
TELEPHONE OPERATING INCOME....	\$1,514 66	*\$134 36
310 Other operating revenue.....	\$509 63	\$194 90
340 Other operating expenses.....	587 28	266 27
NET REVENUE FROM OTHER OPERA- TIONS	*\$77 65	*\$71 37
OPERATING INCOME, GROSS.....	\$1,447 01	*\$205 73
360 Interest accrued		\$160 60
370 Miscellaneous charges to income.....	\$25 90	25 65
380 Dividends declared (charged direct to surplus) .....		.....
TOTAL DEDUCTIONS	\$25 90	*\$186 25
BALANCE TRANSFERRED TO CREDIT*		
SURPLUS	†\$1,411 11	*\$391 98

* Deficit.

† Dr. surplus.

The record in this case discloses that applicant has in the past received from its revenues sufficient funds to carry on its business, set aside a depreciation reserve amounting to \$9,360.09, as of December 31, 1920, which sum approximates 40 per cent. of the total book cost of plant and equipment, and, in addition to annual dividends, has accumulated a surplus as of above date in the sum of \$8,665.46. The records on file with the Commission indicate that the average annual cash and stock dividend for the thirteen-year period of the existence of this property

was 10.65 per cent., with a maximum dividend of 12 per cent.

In its order * decided November 11, 1920, carrying certain increases, the Commission permitted an annual amount equal to 10 per cent. of the depreciable property to be set aside to take care of deferred replacements. The testimony of Mr. Woodbury is that this work has now been completed. The record discloses that the depreciation reserve fund and the surplus are at present invested in additions and betterments to the property. Thus, the depreciation reserve is not now available in cash for making replacements.

A depreciation reserve is, under the Public Utilities Law, created for a specific purpose, that of replacing and renewing property that has become worn out or obsolete in a public service. It is not a fund to be set up for the purpose of creating new property under the name of a depreciation reserve.

While the Commission has permitted such portion of the depreciation reserve as is not immediately needed for replacement purposes to be invested temporarily in a property, such portion of the reserve as is needed to meet immediate depreciation demands, must be kept available.

The annual amounts heretofore set aside as a depreciation reserve, have resulted in the accumulation of a depreciation reserve account considerably in excess of the requirements of the company for this purpose, and the fund carried as a reserve for accruing depreciation may be considerably reduced without affecting the investment. For the year 1921, applicant should not be required to set aside an annual amount for the reserve fund for depreciation, and for the year 1922, until further ordered by the Commission, applicant should set aside as the annual requirement for the depreciation reserve fund the sum of \$1,000, which sum is based upon the present depreciable physical property, with a composite weighted average life

* See Commission Leaflet No. 109, p. 1486.

for the property of sixteen and two-thirds years and set up upon a sinking fund basis at 5 per cent.

With corrections as above indicated, the actual investment in property is enjoying a reasonable return, and there appears no reason at this time for the granting of said increase. In view of the surplus earnings realized in past years, the utility should bear its proportion of the burden during the period of transition from war conditions.

An appropriate order will be issued.

ORDER.

This case being at issue upon petition and protest on file, and having been duly heard and submitted, and full investigation of the matters and things involved having been had, and the Commission having, on the date hereof, made and filed a report containing its findings, which said report is hereby referred to and made a part hereof;

It is ordered, That the application herein be, and it is hereby, denied.

November 3, 1921.

WISCONSIN.

Railroad Commission.

In re APPLICATION OF THE BOSCOBEL TELEPHONE COMPANY
FOR AUTHORITY TO ISSUE STOCK.

S. B.-1588.

Decided October 24, 1921.

Issue of Stock and Stock Dividend Authorized.

CERTIFICATE.

Be it remembered that on the twenty-second day of November, 1920, the Boscobel Telephone Company, a public service corporation, applied to the Railroad Commission of Wisconsin for authority to issue \$4,000 of its capital stock, and for that purpose filed with the Commission a statement duly signed and verified by its president and secretary, as required by Sections 1753-9 of the statutes.

That it appears from said statement that the sum of the outstanding stock, bonds, notes and other evidences of indebtedness of said corporation reckoned at the par or face value thereof, is less than the value of the property owned by said corporation and used by it in the conduct of its business, and that said corporation desires to issue \$4,000 of its capital stock for the purpose of bringing the total of its outstanding stock, bonds, notes and other evidences of indebtedness more nearly to an equality with the value of its aforesaid property as provided in Paragraph (D) of Subsection 1 of Sections 1753-5 of the statutes.

That upon investigation into the matters in said statement and into the value of the property of said Boscobel Telephone Company, the Commission finds and determines that the value of the property of said corporation on July 8, 1921, for the purposes of these proceedings was at least the sum of \$8,000.

The value herein fixed and determined is for the purpose of this proceeding only and shall not be taken in a proceeding before the Railroad Commission of Wisconsin or before any other public authority as representing the fair value for any other purpose.

That said corporation duly and satisfactorily complied with the requirements of said statute, and the Commission after considering said statement and the evidence before it found and determined that the proposed issue of stock is lawful and for lawful purposes and reasonably necessary for the purposes of the corporation.

Now, therefore, the Railroad Commission of Wisconsin hereby authorizes the Boscobel Telephone Company, a Wisconsin corporation, to issue its capital stock as follows:

Forty shares of its capital stock of the par value of \$100 each, making a total issue of \$4,000.

Said corporation shall distribute the said stock equally, share for share, among the holders of the stock of said corporation now outstanding.

Said Boscobel Telephone Company shall file with the Commission within thirty days after the disposition of the stock as herein authorized verified statements showing the facts in relation to such distribution of stock.

Said Boscobel Telephone Company shall not issue the stock herein authorized either directly or indirectly, until this certificate shall have been recorded upon the books of the corporation.

In witness whereof, these presents have been signed and attested by the Railroad Commission of Wisconsin at its office in the Capitol in the city of Madison, Wisconsin, this twenty-fourth day of October, 1921.*

* On the same day an issue of common capital stock was authorized for the purpose of securing funds with which to pay indebtedness incurred for additions, extensions and betterments to plant and property, *In re Bayfield Independent Telephone Company* (S. B.-1706).

In re APPLICATION OF THE FARMERS TELEPHONE COMPANY
OF BEETOWN FOR AUTHORITY TO INCREASE RATES.

U-2176.

Decided October 24, 1921.

**Switching Costs Considered — Request for Modification of Switching
Rate Refused.**

SUPPLEMENTARY OPINION.

In a decision* issued on December 20, 1920, this Commission authorized the above-named company to place an increase in rates in effect. Among the rates authorized was a switching rate of \$7.20 per year, per telephone switched, which superseded a rate of \$3.00 per year for the same class of service.

It later appeared that a number of independently owned telephone lines which receive switching service were not notified of the hearing held on the company's application and that they desired a further hearing to enable them to be present and to submit evidence with regard to the switching costs. This request was granted and on May 3, 1921, a second hearing was held at Madison. *J. A. Pratt* and *R. M. Austin* appeared for the Farmers Telephone Company. *J. F. Walsh* appeared for the Potosi Mutual Telephone Company, the Lucky Twelve, Number Five, Number Six and other associated lines.

The testimony was limited to the consideration of the costs of switching at the Potosi exchange where the above-mentioned lines are connected. Both parties gave information as to the costs at this exchange and subsequently the Commission obtained more detailed information.

The Potosi exchange is located in a residence at Potosi and is operated under a contract with a private family. The contract provides for the payment of 22 cents per hour for nineteen hours out of twenty-four hours which is the minimum rate under the ruling of the Industrial

* See Commission Leaflet No. 110, p. 2082.

Commission for exchanges of this class. The annual operating charge is therefore \$1,525.70. In addition to this charge for operation the utility pays \$4.00 per month rental and furnishes the heat and light for the exchange room which is estimated to cost about \$35.00 per year additional. Batteries for the ringing machine are estimated to cost \$40.00 per year. The expenses applying to the operation of the central and which are apportionable to the various classes of subscribers according to the use of the exchange by them are as follows:

Operating labor	\$1,525 70
Rent	48 00
Light and fuel	35 00
Batteries	40 00

CENTRAL OFFICE OPERATING EXPENSES.....	\$1,648 70
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We have as a basis for the distribution of expense according to the traffic, a three-day count of the incoming calls for the local, rural and switched classes. We do not believe as a general rule that an entirely proper apportionment of the time of operation can be made on the basis of the incoming calls. However, in this case these are the only data available. Attention should be called to the fact that during the count three of the switched lines were crossed and the calling rate consequently diminished. This would have the effect of reducing the per cent. of incoming calls from switched lines existing under normal conditions. The traffic count is as follows:

	Number	Per Cent.
Switched lines, incoming calls.....	493	30.1
Rural lines, incoming calls.....	587	35.8
Local lines, incoming calls.....	559	34.1
TOTAL	1,639	100.0

This table indicates that as far as actual number of calls answered is concerned 30.1 per cent. of the time of operation is chargeable to the switched lines. On this

basis the proportion of the central office operating expense chargeable for switching is \$496.26 per year or, as there are 112 switched telephones, \$4.43 per telephone, per year.

MAINTENANCE OF CENTRAL OFFICE EQUIPMENT.

As a charge under this head it has been necessary for us to estimate the amount which would be spent under normal conditions as the books of the company are not kept so as to disclose the charges to this exchange. We believe that a charge of 90 cents per line is proper. As there are 8 switched lines, the total to be assigned to switching is \$7.20, or 6.5 cents per telephone, per year.

MAINTENANCE OF WIRE PLANT.

The Farmers Telephone Company owns a portion of the switched lines on which maintenance should be allowed. All the lines are in cable and the maintenance is therefore light. We believe that an amount of 50 cents per line is ample, as the average length is but 426 feet. This would amount to about 3.5 cents per telephone, per year.

GENERAL EXPENSE.

A certain portion of the general expense must also be assigned to the switched subscribers. This includes the supervision of exchanges, accounting, directory expense and miscellaneous items. On the basis of connected subscribers we find that \$801.60 is assignable to the Potosi exchange. The subscribers of the Farmers Telephone Company should bear much the larger portion of this expense on account of the fact that all equipment used to serve them is owned and maintained by the company. In order that our apportionment will reflect this feature we are giving double the weight to these subscribers as a "per telephone" basis. This assignment of general expense charges \$1.32 to each switched telephone.

INTEREST AND DEPRECIATION.

The property of the Farmers Telephone Company which is used by the switched subscribers consists of full exchange equipment for 8 lines and also a portion of the aerial cable. Our unit costs indicate that, for a switchboard of this type with its present capacity, the cost per line is \$7.19 including overhead allowances, thus making the total exchange value used by switched companies \$57.52. The cost of the portion of the cable used is estimated at \$27.28, so that the entire value of the property used in switching is about \$84.80. The depreciation allowance is taken at 6 per cent. and the interest allowance at 8 per cent. of this value. The total allowance for interest and depreciation is, therefore, \$11.97 per year. This is about 11 cents per switched subscriber.

We believe that the above analysis of costs takes care of all reasonable allowances for service at Potosi with the exception of taxes. However, the switched service rendered switched companies is generally confined to the exchange at which the switched lines terminate. In this case, however, service is rendered free through 8 exchanges covering the greater part of Grant County. There can be no doubt that a portion of the maintenance and fixed charges of the lines connecting the various exchanges should be borne by the switched subscribers. Just what should be assigned to the switched subscribers at Potosi is very difficult of determination as we do not have either the costs of the various lines nor any equitable basis for the assignment of these costs. We are inclined to think, however, that the costs including the operating labor for handling interexchange calls will easily reach \$1.00 per switched telephone and will include this amount in our determination of switching costs.

Taxes have been taken at $2\frac{1}{2}$ per cent. of the present switching revenue and amount to 18 cents per switched telephone, per year.

The total annual switching cost at Potosi as determined herein is as follows:

Central office operating labor.....	\$4 43
Maintenance of central office equipment.....	065
Maintenance of wire plant.....	035
General expense	1 32
Interest and depreciation	11
Free trunking service	1 00
Taxes	18
<hr/>	
TOTAL COST PER SWITCHED TELEPHONE.....	\$7 14

The total cost conforms very closely with the switching rate authorized in the previous decision.* The entire cost of the service in the calculations has been divided as nearly as possible on the basis of the participation of the switched subscribers in all proper expenses. It has been asserted by the respondents that, inasmuch as the additional cost of switching them was not very large, consideration should only be given to such additional expense in the fixing of a switching rate. It is no doubt true that the additional costs of switching are not as great as the present switching rate, but on the other hand if switching were done by the individual lines the cost would be much greater and we cannot see that the advantage should be anything but mutual.

The order* of December 20, 1920, will not be modified.

Dated at Madison, Wisconsin, this twenty-fourth day of October, 1921.

* See Commission Leaflet No. 110, p. 2082.

In re APPLICATION OF THE MORGAN TELEPHONE COMPANY
FOR AUTHORITY TO INCREASE RATES.

U-2561.

Decided October 27, 1921.

**Money Available for Dividends But Invested in Plant Held to Have
Accrued to Stockholders in Form of Additional Property —
Accumulated Depreciation Reserve Invested in Plant Added
to Value — Increase in Rates Authorized — Move
and Reconnecting Charges Established.**

OPINION AND DECISION.

The application of the Morgan Telephone Company seeking authority to increase its rates for telephone service was filed with the Commission August 4, 1921. Hearing was held at Shawano, September 23, 1921, at which time the following appearances were entered: for the town of Oconto Falls, *C. F. Meyer, Joe Calpa, Wm. Rallof, and Albert Wahl*; for the Morgan Telephone Company, *Andrew Dinse*, secretary and treasurer.

The lawful rate of the applicant is \$1.25 per telephone, per month. Permission is asked to increase this charge to \$2.00 per month, per telephone. The applicant offers as reasons for requesting the increase in rates, the increase in switching rates recently granted to the Wisconsin Telephone Company, which increases its charge for central office service from 25 cents per station, per month, to 62½ cents per station, per month; and the fact that the company has never been able to pay an adequate return on its investment.

The applicant operates a small rural system consisting of 70 subscribers served from 4 full metallic lines. All lines are overloaded, the maximum number per line is 18, the minimum 15. Central office service is obtained from the Oconto Falls exchange of the Wisconsin Telephone Company.

The plant investment is set forth as amounting to \$3,217, or approximately \$46.00 per telephone. Since all circuits

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are full metallic and all poles of a good grade of cedar, it cannot be said that the unit cost appears excessive. The total stock outstanding amounts to \$1,200, and represents the only "out of pocket" cash which the stockholders have put into the plant. Two dividends have been paid on the stock issued, one of 15 per cent. and the other of 10 per cent., making the total cash dividends \$300. Figuring a reasonable return upon the stock issued, we determine that the stockholders have foregone cash dividends to the extent of approximately \$660. However, the plant value is much in excess of the original cash investment of \$1,200 and it seems reasonable to assume that these so-called "foregone dividends" have really accrued to the stockholders in the form of additional property.

No depreciation reserve has ever been set up by the applicant and we assume, therefore, that all renewals have been charged directly to operating expenses. If we consider an average property value over the company's ten-year period of operation we determine that the accumulated depreciation reserve at 6 per cent. would amount to approximately \$1,470. Assuming that the total of the reserve has been invested in plant, we would then have the following items of investment offsetting the reported plant value:

Original stock sale	\$1,200 00
Unpaid dividends	660 00
Depreciation reserve	1,470 00
TOTAL	\$3,330 00

A reasonable return of 8 per cent. and adequate depreciation at 6 per cent. of the book value would entail an annual charge of \$450.38 per year.

The central office service of the applicant is a fixed charge of \$525 per year. Other expenses incident to the operation of the plant, which include wire plant and substation expense as well as minor expenses, will not, we believe, exceed \$400 per year.

Taxes will total approximately \$45.00 per year. The total expense of the company then to be met by revenues may be summarized as follows:

Return and depreciation	\$450 38
Switching charges	525 00
Other operating expenses	400 00
Taxes	45 00
TOTAL	\$1,420 38

This requirement averages approximately \$20.30 per telephone annually on the basis of 70 telephones. Considering that the company may lose some subscribers due to an increase in rates, we believe that a rate of \$21.00 per year will not be excessive and should be authorized. An appropriate order will accordingly be entered.

It is, therefore, ordered, That the applicant, the Morgan Telephone Company, be, and the same hereby is, authorized to discontinue its present rate of \$1.25 per month and to substitute therefor charges of \$2.00 gross and \$1.75 net per month, per telephone.

The difference between the gross rate and the net rate shall constitute the discount for prompt payment and rules governing this may be filed by the company for the approval of the Commission.

It is further ordered, That the applicant may file with the Commission as a part of its regular schedules:

Moving charge	\$2 00
Reconnecting charge	2 00

Rates may be made effective for all service rendered on and after November 1, 1921.

Dated at Madison, Wisconsin, this twenty-seventh day of October, 1921.

In re INVESTIGATION ON MOTION OF THE COMMISSION OF THE
PETITION OF ADAM SCHIDER AND SEVEN OTHERS FOR
SERVICE FROM THE MANAWA TELEPHONE COMPANY.

U-2571.

Decided October 31, 1921.

Request for Change of Service to That of Another Company Dismissed.

OPINION AND DECISION.

The above-entitled proceeding relates to the desire of five subscribers of the Ogdensburg Telephone Company to discontinue service from the Ogdensburg company and secure the service of the Manawa Telephone Company through its Manawa exchange. Three other parties who do not now have telephone service also signed the petition. A hearing was held at Ogdensburg on October 21, 1921, at which *Adam Schider* and the other interested subscribers appeared on their own behalf, *U. G. Lytle* for the Ogdensburg Telephone Company and *John T. Penn* for the Manawa Telephone Company.

At the hearing the Ogdensburg Telephone Company indicated that it had no objection to an extension of the lines of the Manawa Telephone Company to serve William Flater, Ed. Jasman and Mrs. Mina Ayers. All parties interested having been notified and there being no objection to the above extension, the Manawa service should be extended to said persons.

The testimony indicates that the five subscribers of the Ogdensburg Telephone Company who desire Manawa service are located in sections 5 and 6 of the town of Little Wolf, a somewhat shorter distance to Manawa than to Ogdensburg. The Ogdensburg service has been installed in this locality for approximately ten years. No complaint was made as to the local service furnished by the Ogdensburg company, but it was stated that some difficulty had been experienced in transmitting messages promptly over the toll lines of the Wisconsin Telephone Company between Ogdensburg and Manawa, via Waupaca. One of the sub-

scribers in question, Mr. E. Bartell, has sold his farm and was unable to state the preference of the persons who will occupy the farm as to telephone service. The other four parties all stated that their business transactions were conducted chiefly at Manawa; that they were members of the Local Society of Equity at Manawa, and with one exception that they went to Manawa for medical and veterinary service. It was also stated that all the parties in question are served by a mail route out of Manawa. One of the parties has no relatives on either line; the others have relatives on both lines. It also appears that while their chief business transactions are in Manawa that some casual shopping is done in Ogdensburg.

As noted above one of the signers of the petition has sold his farm. Three of the others stated that their farms were listed for sale, leaving only one of the group of five whose farm is not sold or for sale.

The station-to-station rate between Ogdensburg and Manawa over the lines of the Wisconsin Telephone Company via Waupaca is 10 cents. Records submitted by the Ogdensburg Telephone Company indicate that the subscribers in question have made very infrequent use of the toll service. The subscribers, however, stated that this fact is due to the delay in getting messages through and testified that they would have almost daily use for Manawa service if a prompt connection were available. It was stated that the subscribers do not object to the existing toll rate and that they would be satisfied if some provision were made for expeditious toll service between the two exchanges.

Both companies appear to be willing to establish a clear line connecting the two exchanges. To establish such a line no new poles would be necessary since there is a pole line owned in part by both companies extending full length between Ogdensburg and Manawa. The cost of such a line was estimated by the Manawa Telephone Company at \$390. The construction and operation of such a clear line would apparently remove the principal objections of the

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subscribers to the service from the Ogdensburg exchange and would, in the judgment of the Commission, tend to eliminate future complaints such as that here under consideration. It was pointed out by the Ogdensburg Telephone Company that it has a very limited territory and that it cannot successfully maintain its exchange if any considerable number of its patrons should be taken over by other surrounding exchanges. In view of the conditions above set forth, the Commission is of the opinion that the proposed establishment of a clear line between the Manawa and Ogdensburg exchanges is desirable and that if such a clear line is established, an order requiring the Manawa company to extend to the five Ogdensburg subscribers who signed the petition to the Commission would not be justified. The Manawa Telephone Company is hereby authorized to extend service to Wm. Flater, Ed. Jasman and Mrs. Mina Ayers.

It is, therefore, recommended, That the Ogdensburg Telephone Company and the Manawa Telephone Company jointly construct and operate a clear line between their respective exchanges at Manawa and Ogdensburg and file with the Commission a suitable rate for the transmission of messages thereover.

It is ordered, That the proceeding herein be, and the same is hereby, dismissed.

Dated at Madison, Wisconsin, this thirty-first day of October, 1921.

In re APPLICATION OF THE MURRY FARMERS TELEPHONE COMPANY FOR AUTHORITY TO INCREASE RATES.

U-2572.

Decided October 31, 1921.

Increase in Rates Authorized.

OPINION AND DECISION.

Petition of the Murry Farmers Telephone Company was filed with the Commission September 6, 1921, and hearing was set for September 20 at Madison, but no appearances were entered. The petition states that the lawful rate of the applicant now in effect is \$1.25 per month, per telephone. This is the lawful rate authorized by a decision* of the Commission dated October 9, 1918, except as to single party lines for which the rate was fixed at \$12.60 per year, plus \$10.00 for each mile or fraction thereof outside of the village limits of the village of Bruce.

The company's report for the year 1920 does not indicate that there are any such lines.

In its petition the company calls attention to the fact that the Chippewa Valley Telephone Company has increased its switching charge from 25 cents to 50 cents per month, per telephone. This is in accordance with a decision† of the Commission authorizing such increase. Petitioner, therefore, asks for authority to place the following schedule of rates in effect:

	<i>Per Month</i>
• Business service, per telephone.....	\$2 00
Residence service, per telephone.....	1 50
Extension bell	25
Extension telephone	75

Insofar as the ordinary rural or residence service is concerned, the increase merely amounts to the increase in the switching charge. The proposed charges for extension

* See Commission Leaflet No. 84, p. 289.

† See Commission Leaflet No. 117, p. 590.

bells and telephones are not unreasonable. This leaves only the proposed rate for business service which needs any special consideration.

In a number of cases the Commission has recognized that a higher rate is proper for business telephones on rural lines than for residence telephones and the differential proposed in this case does not appear excessive. Furthermore, the report of the company for the year 1920 indicates that it had available for depreciation and return only \$220.78 upon a property value of \$6,100.01. It may be that part of the expense reported is not properly chargeable to operating accounts, although the report indicates that the company has understood the distinction between operating and construction costs and has attempted to recognize this distinction in its report. Even, however, if a portion of the operating expenses were to be excluded, it is clear that the amount available for depreciation and return was not fully adequate and consequently any additional revenue which may be provided by applying the differential proposed to business telephones will not result in an excessive return to the company.

It is, therefore, ordered, That the applicant, the Murry Farmers Telephone Company, be, and the same hereby is, authorized to discontinue its rate for rural service and to substitute therefor the following schedule to be effective for service rendered on and after November 1, 1921:

	<i>Per Month</i>
Business telephones, per telephone.....	\$2 00
Residence telephones, per telephone.....	1 50
Extension bells	25
Extension telephones	75

Dated at Madison, Wisconsin, this thirty-first day of October, 1921.

In re APPLICATION OF THE KEGONSA TELEPHONE COMPANY
FOR AUTHORITY TO INCREASE RATES.

U-2575.

Decided October 31, 1921.

Request to Increase Rates on Toll Messages Denied.

OPINION AND DECISION.

Application was filed September 13, 1921, by the Kegonsa Telephone Company for authority to increase rates for toll messages between Kegonsa and Stoughton. The actual effect of the proposal, however, would be to increase the joint toll rates of the Kegonsa Telephone Company and the Wisconsin Telephone Company between Kegonsa and Stoughton. The application evidently results from a contract between the Kegonsa Telephone Company and the Wisconsin Telephone Company executed June 27, 1921, by the terms of which it was agreed that the regular toll rates of the Wisconsin Telephone Company should apply on messages between Kegonsa and Stoughton and by which the Wisconsin Telephone Company also became owner of a part of the toll line. The present rate per message is 5 cents and it is proposed to place the following schedule in effect:

Station-to-Station Messages:

For the first five minutes	\$0 10
For each additional three minutes.....	05

Person-to-Person Messages:

For the first three minutes.....	15
For each additional minute	05

Hearing was held at Madison October 5, at which C. A. Silkworth appeared on behalf of the Kegonsa Telephone Company.

It appears that the Kegonsa exchange is located at a point about four miles north of Stoughton; that the Wisconsin Telephone Company and the Kegonsa Telephone Company each owns about one-half of the line, and that the Wisconsin Telephone Company charges 5 cents for messages from Stoughton to Kegonsa, of which it retains 3 cents for switching. Although it does not appear in the record, we understand that on messages from Kegonsa to Stoughton only the 3 cents which is paid to the Wisconsin Telephone Company as a switching charge is actually collected from subscribers of the Kegonsa company.

Under the proposed rate with the war tax, the person-to-person toll charge would be 20 cents for an initial period of three minutes. The contention of the companies is that the present rate is inadequate, but there is nothing in the record which would tend to substantiate any such schedule as that proposed. There has been presented in evidence a summary statement of the number of calls passing over the line, but no analysis of the cost of service has been furnished. Under these conditions we are constrained to hold that there is no basis for authorizing an increase in the schedule now in effect. This schedule has been in operation for a number of years and while it may or may not fully meet the cost of the service, we feel fairly certain that the cost of the service does not justify the schedule proposed and there is nothing in the record which would enable us to determine what the service actually does cost.

It is, therefore, ordered, That the application of the Kegonsa Telephone Company for authority to increase rates be, and the same hereby is, denied and the case is dismissed.

Dated at Madison, Wisconsin, this thirty-first day of October, 1921.

In re APPLICATION OF THE BABCOCK TELEPHONE COMPANY
FOR AUTHORITY TO INCREASE RATES.

U-2493.

Decided November 15, 1921.

Application for Increased Rates Denied on the Ground of Insufficient Data.

OPINION AND DECISION.

Application was filed with the Commission on April 25, 1921, by the Babcock Telephone Company for authority to increase rates. Hearing was set for May 18, 1921, at Madison, but there were no appearances.

The Babcock Telephone Company operates a telephone system in Babcock and the territory tributary thereto for 41 subscribers who are served on four full metallic lines. The rate applicable for these subscribers is \$1.25 per month, per subscriber, for all subscribers. Authority is requested to place the following schedule in effect for the reason that the present rate is inadequate to yield sufficient revenue to meet the operating expenses:

	<i>Per Month Per Subscriber</i>
Business telephones	\$2 00
Residence telephones	1 25
Rural telephones	1 50

The applicant submitted no data to substantiate its allegation that the present rates are insufficient and the annual report which is on file with the Commission is wholly inadequate to give any information as to the financial status of the company. The few figures which are to be found are inconsistent and inaccurate. Although the rates requested are not unusual we have no data to prove that they are either reasonable or unreasonable and it is, therefore, impossible for us to authorize these or any other rates until the applicant complies with our requests and submits information which will enable the Commission to

pass upon the reasonableness of the rate with fairness to both the consumers and the applicant.

It is, therefore, ordered, That the application of the Babcock Telephone Company be denied and the case is hereby dismissed.

Dated at Madison, Wisconsin, this fifteenth day of November, 1921.

In re APPLICATION OF THE WILLOW SPRINGS TELEPHONE
COMPANY FOR AUTHORITY TO INCREASE RATES.

U-2567.

Decided November 15, 1921.

**Purchase and Consolidation of Exchanges Recommended — Discontinu-
ance of Free Service Authorized — Charge for Toll Service
over Loaded Lines Prohibited — Rates Established.**

OPINION AND DECISION.

The application of the Willow Springs Telephone Company seeking authority to increase its rates for telephone service and to provide for other adjustments in its financial affairs was filed with the Commission August 22, 1921.

Hearing was held September 20, 1921, at Darlington, Wisconsin, when the following appearances were entered: for the Willow Springs Telephone Company, *C. F. McDaniels*, attorney, *Allen Godfrey* and *W. G. Bennett*; for the Darlington Farmers Exchange, *B. S. McDermott*; for the Iowa and Lafayette County Farmers Telephone Company, *H. Andrews*; for the Belmont and Pleasant View Telephone Company, *John Hillary*; for the Truman Telephone Company, the Cary Telephone Company, the William Godfrey Line and Calamine Village Local Telephone Line, *E. F. Conley*, attorney.

The applicant has no legal rate in effect at the present time. Its revenues are derived from assessments made on both stockholders and non-stockholders alike.

The Commission is asked to authorize such a rate as it may find proper.

The Willow Springs Telephone Company is a small mutual organization of 56 farmers operating four rural lines. Central office service for the most part is obtained from an exchange in the city of Darlington in which the applicant is supposed to own a one-fourth interest. One of its rural lines connects the Darlington exchange with a small exchange at Calamine, to which several other farmer lines and a few village subscribers are connected. Another of its rural lines connects the Darlington exchange with the Mineral Point exchange. Two other companies, the Iowa and Lafayette County Farmers Telephone Company and the Belmont and Pleasant View Telephone Company, share in the operation of the Darlington Farmers Exchange. Each of these companies contributes a three-eighths share toward its operation and maintenance. The latter two companies have various connections with other exchanges so that it is possible for subscribers of the three companies to reach the greater part of the independent companies' subscribers in Lafayette County. No charges are made for connections with other exchanges and, while it is possible to reach quite a number of exchanges, the service is extremely poor.

The assessments made in the past by the applicant have varied from \$8.00 to \$25.00. The maximum of \$25.00 was for services rendered during 1920. Investigation and testimony shows that of the \$25.00 assessed in 1920, \$17.87 was paid to the central office organization, or the Darlington exchange.

The charge of \$25.00 to the Willow Springs subscribers was much in excess of the assessments in other mutual organizations with which they were familiar, and for this and other reasons several of the company's subscribers refused to pay it. After having exhausted its own power to collect the assessments, the applicant instituted suit against the delinquent subscribers. Failing in this, it then appealed to the Commission to establish for it a legal

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rate and to determine its status in the Darlington Farmers Exchange.

The Darlington Farmers Exchange is not incorporated and at best is but a very loose organization of the three companies previously mentioned for the purpose of obtaining an interchange of service with each other and with various other independent companies in Lafayette and adjoining counties. To complicate matters still further the exchange organization has extended service to about 195 local business and residence subscribers in the city of Darlington. We are unable to state the company of which these parties are subscribers. The cost of extending service to these subscribers has been assessed to the three rural companies, one-fourth to Willow Springs company and a three-eighths share to each of the other two companies. When we speak of the costs of the exchange we refer to total expenditures, for no distinction is made in the records of the exchange between capital and operating charges. The same criticism may be made concerning the records of the individual companies. Under these circumstances it is practically impossible to make any accurate determinations of proper and just rates.

We feel confident, however, that the local subscribers in Darlington are not paying their just share of the expense in connection with the operation of the Farmers exchange. The rates now charged, according to the best sources of information, are:

*Per Month
Per Subscriber*

One-party lines	\$1 50
Four-party lines	1 00

The experience of other exchanges indicates that \$1.50 per month, per subscriber, will not cover the costs of giving service to one-party business subscribers, and we doubt very much if it will cover the cost of giving service to one-party residence service, where free service is extended "as far as you can hear," as is the case with the Darlington exchange. The result, as we see it, loads upon

the three farmer companies' subscribers a portion of the costs, at least, of giving service to local Darlington subscribers.

The subscribers of the Iowa and Lafayette County and Belmont and Pleasant View companies are more numerous than those of the Willow Springs company. The Iowa and Lafayette company has 192 subscribers, and the Belmont and Pleasant View 445. It is our understanding that these two companies apportion their shares of the Darlington exchange expenditures among all of their subscribers irrespective of the exchange to which they are connected. It must be apparent that, with these larger numbers of subscribers, the average cost per subscriber for the Darlington exchange is not large, at least it does not compare with the charge paid by the Willow Springs company where the number of subscribers is but 56. It is quite natural that the larger companies should be perfectly satisfied with the present agreement and that the small company should desire relief.

Aside from the fact that the apportionment of the Darlington costs is inequitable, the method is confusing for the reason that it apportions capital charges among the different subscribers of the rural companies without issuing to them any evidence of additional ownership. Moreover, it assesses capital charges upon renters, or non-stockholders, without granting them any ownership in the property. We further believe that an analysis will show that the renter is also carrying a part of the Darlington exchange expense which should be borne by local subscribers.

After a careful study of the conditions affecting the operation of the Darlington exchange, we have the following recommendations to make:

In the first place, the exchange if continued should be operated by a separate company, legally incorporated under the laws of the State. The three companies now interested in its operation may, if they so desire, arrange to organize this company and take stock in proportion to

their present alleged ownership in the equipment or upon other basis to be determined. Rates for local business and residence service should be made so that the local subscribers will pay the costs of the service rendered them. A rate must also be made for rural companies obtaining service at the exchange. This charge should be in the nature of a switching rate, which would probably be from \$5.00 to \$6.00 per year and should be applied only to rural subscribers directly connected with the exchange. The records of the new company should be kept entirely separate from the rural companies' accounts and it should include in its statement of revenues the amounts received from switching service as well as earnings from local subscribers' lines. Capital charges should be kept entirely separate from operating charges and additional capital for construction should be furnished by the stockholders in the exchange corporation. It would be still better if one of the competing exchanges in Darlington would purchase the other. If such a purchase were consummated the entire local population could obtain its service from one exchange. The rural lines could still retain their individualities and obtain switching service by being met at the city limits by the exchange company.

The adoption of this plan would be by far the most satisfactory and would render the most service at the least cost. Either the adoption of this plan or of the one following out our suggestions relative to the organization of a second exchange company is necessary to clear up the present situation and render the grade of service that should be rendered in a progressive community such as the one served by these utilities.

The only other alternative we can suggest which would in any way help the applicant would be for it to sell its interest in the Darlington Farmers Exchange and obtain switching service from one of the two exchanges by meeting its lines at the city limits. The Commission would upon formal application fix a switching rate for this service. Should the present plan of operation be continued

(which we cannot too severely condemn) we believe that the costs of operation should be apportioned to the different companies upon a subscriber basis assessable only to such subscribers as are directly connected to the Darlington exchange, and further a rate should be fixed for local service which will meet the costs of the service. Construction expenditures must not be assessed to subscribers. Such charge should be met by the sale of additional stocks, by bonding or from other loans. We would point out that insofar as the cost of operation of the Calamine exchange is concerned this should be apportioned equally to all subscribers connected directly to the exchange. Subscribers not directly connected to the exchange should not be assigned any of the costs incident to its operation. The number of subscribers directly connected on June 30 of any year should furnish the basis of the apportionment of the cost. Whether or not this can be done under the present method of organization is another question.

It appears from statements made at the time of the hearing that the Willow Springs Telephone Company is paying \$2.00 per year, per subscriber, for its connection with Mineral Point over its own loaded line. This practice, we believe, should be discontinued as good toll facilities are available between these two exchanges. Such Willow Springs subscribers as desire Mineral Point service should be directly connected to the Mineral Point exchange, and should pay the regular switching charge. Those desiring the Darlington service should be connected to the Darlington exchange. The loaded line should be cut at such a point as will give the majority of its subscribers their desired service.

A determination of a rate upon the best evidence available follows:

The investment of the Willow Springs company outside of its Darlington exchange holdings appears to be about \$3,000. A 6 per cent. allowance for depreciation on this amount would be \$180. If the company is desirous of a reasonable return on its investment the above allowance

should be increased to \$420. Its central office expense, assuming that it takes its service upon a switching basis such as we have outlined, should not exceed \$6.00 per subscriber, per year.

If the applicant decides to fully maintain its wire plant and subscriber sets, and furnish all supplies and materials, the cost per subscriber will be at least equal to the central office expense, or \$6.00 per telephone.

The total costs including 2½ per cent. for taxes then are as follows:

	<i>Per Year</i>
	<i>Per Subscriber</i>
Where return is considered	\$20 00
Where return is not considered	16 00

It is, therefore, ordered, That the applicant, the Willow Springs Telephone Company, be, and the same is hereby, authorized to institute a charge, applicable to stockholders and non-stockholders alike, of \$20.00 per telephone, per year, and is further authorized to discontinue its free through line connections to Calamine and Mineral Point and require its subscribers to pay regular toll rentals for service to these points. The lines connecting these exchanges may be cut in accordance with the provisions outlined in the body of this decision.

The costs of the operation of the Calamine exchange shall be apportioned among companies upon a subscriber basis. No charge shall be made for toll service over the applicant's loaded lines between Calamine and Darlington and Darlington and Mineral Point.

Recommendations covering the proper procedure to be followed to obtain the most efficient central office service are fully outlined in the body of this decision.

Rates as outlined above may be made effective at any time following the date of this order but only after their filing with the Commission.

Dated at Madison, Wisconsin, this fifteenth day of November, 1921.

In re APPLICATION OF THE POY SIPPI TELEPHONE COMPANY
FOR AUTHORITY TO INCREASE RATES.

U-2673.

Decided November 15, 1921.

Increase in Rates as Requested Authorized.

OPINION AND DECISION.

The Poy Sippi Telephone Company filed this application for authority to increase rates on September 6, 1921, and hearing was set for September 20, but no appearances were entered.

The applicant operates a small telephone system in and around Poy Sippi, Wisconsin, which served 256 telephones as of December 31, 1920. The lawful rates now in effect are \$1.50 per month for single party lines and \$1.25 per month for party lines. Applicant alleges that the income is not sufficient to cover the expenses and leave anything for dividends and asks authority to increase the rates 25 cents per month, payable quarterly, and to provide a rule to the effect that if bills are not paid by the fifteenth of the first month in the following quarter there shall be an increase of 50 cents per month (over now existing rates), making the rates \$1.75 per month for single party lines and \$1.50 for party lines if paid within fifteen days after the end of each quarter, and \$2.00 per month for single party lines and \$1.75 per month for party lines if bills are not paid by that time.

The report of the company for the year ended December 31, 1920, shows a cost of plant of \$13,625. There is considerable doubt, however, as to the correctness of this figure as it is noted that no additions or deductions are reported for the year 1920 and that all items entering into this total are reported in round figures. Furthermore, the report for the previous year shows a cost of plant of \$13,725 as of December 31, 1919. It will perhaps be best, therefore, to disregard the property account as reported except as it may be substantiated by reference to the

amount of property in the system. The report for the year 1920, as previously stated, shows a total of 256 telephones served at the end of the year which compares with a total of 249 for one year previous. The report for 1920 also shows that there is a total of 14 local lines, 15 rural lines and 2 toll lines in service, all of which are indicated as being of metallic construction, and that there is a total of 150 miles of pole line, 354 miles of wire, and 1000 pair feet of cable. There is a magneto switchboard with an ultimate capacity of 50 circuits. These data indicate that the value of the property is probably not very widely different from that reported for the year 1920. It does not become necessary to determine the value with any greater degree of accuracy than this.

For the year 1920 the total expenses before depreciation were reported as \$2,795.24, which is about \$11.00 per telephone and which cannot be considered as an excessive figure. The distribution of pay roll shows the following classification of disbursements according to employees:

Superintendence	\$116 00
Central office operators	1,462 24
Maintenance men	193 80
Office clerk	60 00
General officers	72 00
TOTAL	\$1,904 04

This indicates that there has been no excessive amount paid for labor and neither does the balance of expense representing items other than labor appear excessive. In fact, the total is quite conservative.

Revenues were reported as \$3,969.93, of which all but \$143.68 was obtained from subscriber telephone earnings. This appears to be approximately a correct statement.

Provision for depreciation on a property such as this would probably require about \$800 per year. The company indicates in its last report a provision of \$850. Assuming for the moment that \$800 is a correct provision, there would be a total cost of service of \$3,595.24, which

would leave \$374.69 available for return. If the value of the property is \$13,625 as indicated in the report, this means that the amount available for return is less than 3 per cent. It is apparent, therefore, that very much less than a reasonable return has been earned even though the value of the property may not be quite as indicated in the last report.

An increase of \$3.00 per year, per telephone, would produce increased revenues of \$768, which, if expenses were the same as those of last year, would mean that there should be available for return about \$1,143, which is about 8.4 per cent.

In view of the fact that expenses have been very conservative and that the property value is probably not far from the indicated book value, we cannot hold that rates which would produce the return indicated are at all unreasonable. Neither is the company's proposal with reference to the application of a penalty an unreasonable one, although it is not in form exactly what we might recommend. We conclude, therefore, that the applicant should be authorized to place in effect the schedule of rates for which it has made application.

It is, therefore, ordered, That the applicant, the Poy Sippi Telephone Company, be, and the same hereby is, authorized to discontinue its charge of \$1.50 per month for single party lines and \$1.25 per month for party lines and to substitute therefor the schedule of rates the authorization of which it has requested in this case.

Dated at Madison, Wisconsin, this fifteenth day of November, 1921.

In re APPLICATION OF THE NEW CASHTON TELEPHONE COMPANY FOR AUTHORITY TO INCREASE ITS RATES.

U-2551.

Decided November 23, 1921.

**Free Service Between Exchanges Abolished and Toll Rates Established
— Increase in Rates Held in Abeyance Pending Improvement
in Service Conditions.**

Application was filed for authority to increase the schedule of rates for telephone service and switching charges, and for authority to discontinue free exchange of service with the Bloomingdale Telephone Company and the Dell Telephone Company, and to place in effect toll rates between its exchange and the last two exchanges named.

The company complained that in previous applications it had not been granted the increases in rates it desired, and that as a result, its earnings had been inadequate.

The Commission found from an examination of the company's reports filed that its contention was not substantiated; that during the year 1920 the amount available for return was slightly over 9.7 per cent., and with the exception of the year 1916 at no time did the company's net earnings fall below 6 per cent., the average for the past eleven and three-fourths years being 7.87 per cent. based upon the value at the end of each year; that for the year 1921 there would be little available for return after provision for depreciation due to the amount of deferred maintenance required during the year; that service conditions had been unsatisfactory throughout the greater part of the period of the company's existence; that at the present time its lines were in bad condition, were too heavily loaded, and would require considerable labor and expense before efficient service could be rendered.

The Commission further found that applicant's income account for the first nine months of the year 1921 indicated that there would be a need of increased revenue not less than that which would be produced by an increase of 25 cents per telephone, per month, in the rates, and that when the company had improved its service conditions in line with the suggestions made in the opinion entered herein, so that the service department could submit a favorable report, an order should be entered authorizing the increase in rates which the company requested.

Held: That a toll rate of 5 cents per message should be placed in effect between Cashton and Bloomingdale and between Cashton and Dell, one-quarter of the revenue from such rate, whether originating or terminating business to be paid to the Bloomingdale company or the Dell company as the case may be, and the balance to be retained by the Cashton company to compensate it for central office work and for the clear line to be furnished by it;

That a switching rate of \$6.00 per year should be applied, commencing January 1, 1922, for the service furnished to the Newry Telephone Company, but that upon the submission of a reasonable toll rate by both companies, such toll rate would be authorized in lieu of this switching charge;

That all other increases in rates as proposed should be held in abeyance until further order of the Commission to be issued when service conditions justified the same.

OPINION AND DECISION.

The New Cashton Telephone Company filed an application with the Commission under date of July 11, 1921, asking authority to increase its schedule of rates for telephone service. The company is at present operating with a schedule of rates approved by the Commission in an order * entered October 31, 1919, which schedule is as follows:

<i>Business Subscribers:</i>	<i>Per Month</i>
One-party service, gross	\$2 00
Two-party service, gross	1 75
<i>Residence Subscribers:</i>	
One-party service, gross	1 75
Four-party service, gross	1 50
<i>Combination Business and Residence Subscribers:</i>	
(a) For one business and one residence telephone connected on the same circuit, gross.....	3 25
(b) For one business and one residence telephone on separate circuits bridged at or near the central office, gross	3 75

Above rates subject to a discount of 25 cents per telephone if paid during the current month. Bills to be rendered monthly in advance at the gross rates.

	<i>Per Quarter</i>
Rural subscribers, gross	\$4 75

Subject to a discount of 75 cents if paid during the first month of the quarter; 50 cents if paid during the second month of the quarter, and 25 cents if paid during the third month. Bills to be rendered quarterly in advance at the gross rates.

* Noted in Commission Leaflet No. 97, pp. 500-502, 504.

The company's application does not include the two-party business rate among the rates now in effect, although the report to the Commission for the year ended December 31, 1920, shows that there were at the end of the year 25 two-party business subscribers. The report also shows a number of two- and three-party residence subscribers not provided for by the rate, although this may be due to an incomplete circuit fill on four-party lines. Apparently, however, the two-party business rate should be quoted as an existing rate.

In the application also it is stated that the rate for switching the Newry Farmers Telephone Company is \$3.00 per telephone, per year, and that there is free exchange of service with the Bloomingdale Telephone Company and the Dell Farmers Telephone Company (probably this is the same company as the Dell Cooperative Telephone Company).

The application contains the usual allegation as to the inadequacy of earnings under the existing rates and authority is asked to place in effect the following schedule:

	<i>Per Month</i>
One-party, business.....	\$2 75
Two-party, business	2 25
One-party, residence.....	2 50
Four-party, residence	2 00

Above rates to be subject to a discount of 25 cents if paid during the current month.

	<i>Per Quarter</i>
Rural grounded telephones.....	\$6 75

Subject to a discount of 75 cents if paid during the first month of the quarter; 50 cents if paid during the second month of the quarter, and 25 cents if paid during the last month of the quarter.

<i>Switching Rates for:</i>	<i>Per Year, Per Telephone, Net</i>
Newry Farmers Telephone Company.....	\$6 00
Bloomingdale Telephone Company.....	6 00
Dell Farmers Telephone Company.....	6 00

Hearing was held October 17, 1921, at Cashton at which the New Cashton Telephone Company was represented by E. J. Kneen, and the Newry Farmers Telephone Company

by *Andrew Urness*. A number of others were present and took part in the questioning but did not enter their appearances.

At the hearing it was stated on behalf of the company that the schedule of proposed rates set out in its application was only tentative and that it had concluded to ask for the authorization of a lower schedule of rates than that in the application. This schedule which it now asks to have authorized represents an increase of 25 cents per month over existing rates. The company now asks also that the arrangements with the Dell Telephone Company and the Bloomingdale Telephone Company be made to provide for toll rates between the exchanges, but that the switching rate for the Newry Telephone Company be placed at \$6.00 per year, per telephone.

It may be well to take up first the matter of the switching rate. It appears from the record that last year the Newry Telephone Company paid \$6.00 per telephone for switching to the New Cashton Telephone Company and also paid \$6.00 per telephone to the Westby Telephone Company. The Newry company's system which is concerned in this case consists of two lines serving a total of 30 subscribers, although the number is variously referred to as from 32 to 38 subscribers, one of which lines has a total of 14 and is connected directly to the Cashton exchange. The other line has 16 subscribers and is connected directly to the Westby exchange. There is a switch in a farm house by which these two lines can be hooked together. We do not understand that the ruling of the Industrial Commission would require either the Westby Telephone Company or the New Cashton Telephone Company to pay 50 cents per telephone for each of the 30 telephones on this system to their operators in lieu of the minimum wage even if the wages of operators for these companies were determined on the basis of the number of telephones, which we do not understand to be the case. If it were the case, however, it is our understanding that the number of telephones on this system would not be used

as a basis for the computation of the \$6.00 payment at each of the exchanges but only for the computation of the aggregate payment at the two.

In the Matter of the Application of the Westby Telephone Company for Authority to Increase Rates on which decision * was issued March 27, 1920, the cost of serving the Newry company at Westby was considered and a rate of \$6.00 per telephone was authorized largely in view of the fact that the Westby Telephone Company furnishes 4½ miles of line. The record in this case indicates that the New Cashton Telephone Company has between 3 and 4 miles of line entirely devoted to this service. We are of the opinion, therefore, that the rate of 50 cents per telephone is probably a reasonable rate for this switching service although it might be advisable for the parties to reach an agreement to place the service on a toll rate basis. Authority will be granted by the order in this case for the parties jointly to file a toll rate if they so desire.

As to the Dell Telephone Company and the Bloomingdale Telephone Company, the record indicates that each of these companies has other central office connections than at Cashton and that the New Cashton Telephone Company maintains a clear line between Cashton and Bloomingdale and that a line existing between Cashton and the Dell company's exchange can be made a clear line so that toll messages can be handled over it. At the present time this service is on a free exchange basis.

There is nothing in the record which throws any light upon the cost of furnishing this service and, therefore, we are not particularly concerned with authorizing a rate which will necessarily meet the entire cost. We believe, however, that a small toll rate is justifiable for this, and, if the toll rate authorized in this case should prove to be inadequate or if there is evidence not presented in this case which will indicate what a proper toll rate should be, the ruling in this case is not intended as any bar to fur-

* See Commission Leaflet No. 102, p. 392.

ther proceedings looking toward the establishing of a proper rate.

The company has taken the position that its earnings have been inadequate and has addressed a communication to the Commission in which it complains of the fact that in previous applications it has not been granted the increases in rates which it desired and that as a result its earnings have been inadequate. An examination of the reports filed with the Commission does not substantiate this contention. Rate increases for this company were authorized in orders issued by the Commission on June 14, 1916,* and October 31, 1919.† The following table is presented to show what the financial condition of the company has been during the period covered by its reports to this Commission. The value of the property for each year is based upon a valuation stated in the opinion of October 31, 1919,‡ which valuation amounted on December 31, 1918, to \$24,831.

	<i>Available for Depreciation and Return</i>	<i>Valua- tion at End of Year</i>	<i>Depre- ciation at 6 Per Cent.</i>	<i>Available for Return</i>	<i>Rate of Available Return</i>
1920.....	\$4,065 22	\$25,806	\$1,548	\$2,517	9.7 plus
1919.....	3,413 25	25,703	1,542	1,871	7.2 plus
1918.....	3,615 84	24,831	1,490	2,126	8.5 plus
1917.....	3,071 11	24,455	1,467	1,604	6.5 plus
1916.....	2,232 16	24,218	1,453	679	2.8
1915.....	2,915 56	23,448	1,407	1,509	6.4 plus
1914‡.....	5,468 58	22,434	2,019	3,450	10.2 plus
1913.....	3,425 06	21,505	1,290	2,135	9.9
1912.....	3,429 11	21,142	1,269	2,160	10.2
1911.....	2,792 99	20,668	1,240	1,553	7.5 plus
1910.....	2,516 78	20,135	1,208	1,309	6.5
1909§.....	700 00	19,610	1,294	406	8.2 plus
ANNUAL AVERAGE.....		\$23,018	\$1,381	\$1,814	7.87

* See Commission Leaflet No. 56, p. 680.

† Noted in Commission Leaflet No. 97, pp. 500-502, 504.

‡ Eighteen months.

§ Three months.

This table shows the amount available for depreciation and return and the amount available for return after a 6 per cent. provision for depreciation based, both for depreciation and return, upon the value at the end of the year which tends to somewhat overstate the requirements for these purposes. Also, at least during recent years, the company has made special provision for the depreciation of automobiles, so that it may be that a provision of 6 per cent. is unnecessarily liberal. In any event, however, taking the figures as they stand they indicate that over the period of eleven and three-fourths years for which reports have been filed with the Commission there has been an average amount available for return equal to 7.87 per cent. of the value of the property at the end of each reporting period. During the year 1920, the amount available was slightly in excess of 9.7 per cent. and in no year, with the exception of 1916, did the amount available fall below 6 per cent. The history of the company under its present owners does not substantiate the claim of inadequate earnings and particularly does not substantiate it for the last three years for which we have reports during which the earnings were 8.5 per cent., 7.2 per cent. and 9.7 per cent. of the property value.

The history of this company in its treatment of service conditions has been unsatisfactory almost throughout. It appears that during the summer of 1921 some work has been done in improving the lines and getting them in shape and that for the present year there will probably be little available for return after provision for depreciation. This is due, however, to considerable extent, to the amount of deferred maintenance which is now being taken care of. A report by our service department dealing with an inspection made on October 13 shows that service conditions are not satisfactory. There is considerable cross-talk on some of the lines, the line to Norwalk is in need of overhauling, wires in town are not properly arranged and are in some cases too close to electric lines, no general inspections of the system have been made, and trouble

records are incomplete. More than this, the number of repeating coils in the cord circuits is inadequate and service between metallic and grounded lines unsatisfactory. Rural lines are too heavily loaded and should be reduced promptly. The lines also should be overhauled in some cases. In view of the fact that the company has had adequate earnings, we cannot justify the neglect of this maintenance work which now requires an abnormal amount of such work to be done. The attitude of the officers of the company as expressed by its representative at the hearing, is that if the farmers and others served from the exchange do not wish to pay the rates proposed they can take over the system at a fixed price. We are not at all certain that in this case this procedure would not be advisable. In any event, it seems to us evident that the company has not fulfilled its duty in the manner in which it should have been performed and that an increase in rates under existing conditions would not be justified.

We do not mean to hold that the revenues arising from present rates will be adequate when proper service is furnished nor that when such service is furnished rates should not be increased. The income account for the first nine months of the year 1921 indicates that there will be need of increased revenue not less than that which will be produced by an increase of 25 cents per telephone, per month, in the rates of the company and when the company has improved its service conditions in line with the criticisms mentioned above so that our service department can submit a favorable report, an order will be entered authorizing the increase which the company seeks at the present time. This improvement in service must include the reduction in the number of telephones on the rural lines to a maximum of 15 and on some of the lines to a number less than that amount. The entire program should be taken up with the service department with a view to the proper solution of the difficulties at present standing in the way of good service.

It is, therefore, ordered, That a toll rate of 5 cents per message shall be placed in effect commencing ten days from the date of this order or upon the furnishing of clear toll lines between Cashton and Bloomingdale and between Cashton and Dell, if such toll lines shall not be available within ten days from the date of this order. One-fourth of the revenue from this toll rate, whether for originating or terminating business, shall be paid to the Bloomingdale Telephone Company or the Dell Telephone Company, as the case may be, and the balance retained by the New Cash-ton Telephone Company to compensate it for its central office work and for the line furnished by it.

It is further ordered, That a switching rate of \$6.00 per telephone, per year, may be applied commencing with January 1, 1922, for the service furnished to the Newry Telephone Company, but that upon the submission of a reasonable toll rate by both companies such toll rate will be authorized in lieu of this switching rate.

It is further ordered, That all other increases in rates as proposed shall be held in abeyance until the further order of the Commission to be issued when service requirements have been complied with.

Dated at Madison, Wisconsin, this twenty-third day of November, 1921.

In re APPLICATION OF THE FARMERS AND MERCHANTS TELEPHONE COMPANY FOR AUTHORITY TO INCREASE RATES.

U-2587.

Decided November 23, 1921.

Increase in Rates Withheld Pending Improvement in Service.

OPINION AND DECISION.

Application in this case was filed with the Commission on October 6, 1921. In its application the petitioner alleges that the revenues under the present rates are

inadequate to meet current operating expenses and to provide properly for the maintenance of the lines.

The following table shows the present rates and the rates which the applicant requests authority to place in effect:

	<i>Present Net Rates</i>	<i>Proposed Net Rates</i>
<i>Business:</i>		
One-party	\$2 00	\$2 50
Two-party	1 75	2 25
<i>Residence:</i>		
One-party	1 75	2 25
Two-party	1 50	2 00
Four-party	1 25	1 75
<i>Rural:</i>		
Business	1 50	2 00
Residence	1 25	1 75

Hearing in the matter was set for November 8, 1921, at Madison but there were no appearances either for or against the granting of the proposed rates. The applicant, however, has submitted a statement signed by approximately 200 of the company's subscribers signifying that the proposed rates would be satisfactory.

The Farmers and Merchants Telephone Company operates a magneto metallic telephone system serving approximately 365 subscribers in the villages of Lena and Coleman and the surrounding rural territory. The property and plant value on December 31, 1920, as reported to the Commission was \$15,940.44 which, we believe, is sufficiently representative of the fair value of the property to be accepted for purposes of this case.

The following table shows the revenues and expenses as reported by the applicant for the year ended December 31, 1920:

Revenues:

Subscriber telephone earnings.....	\$5,554 65
Non-subscriber telephone earnings.....	664 71
Earnings from local toll lines.....	422 62
Commissions on long distance tolls.....	271 09
Non-operating revenues.....	6 15
<hr/>	
TOTAL REVENUES	\$6,919 22

Expenses:

Central office expense.....	\$2,924 46
Wire plant expense.....	508 19
Substation expense.....	845 73
Commercial expense.....	303 15
General expense.....	100 00
Undistributed expense.....	638 70
Taxes	500 77
<hr/>	
TOTAL EXPENSES BEFORE DEPRECIATION.....	\$5,821 00

Balance available for depreciation and return upon investment	\$1,098 22
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The operating expenses, before depreciation, as shown above are equivalent to approximately \$16.00 per telephone. This amount is somewhat higher than the average expense of similar exchanges but with the exception of the item of taxes the expenses appear reasonable when consideration is given to the fact that the applicant operates two exchanges and, consequently, has an unusually high central office expense. The item of taxes, however, appears excessive as the State license tax of $2\frac{1}{2}$ per cent. of the gross revenues amounts to only \$175, which leaves a balance of \$325 for federal and local property taxes. That a large portion of this amount must be war tax on toll messages, which is customarily deducted from the gross toll revenues rather than reported as a tax, seems certain. If the applicant had followed the proper procedure the revenues and expenses would both have been reduced by the amount of the war tax on the toll messages, but the balance available for depreciation and return upon the investment would have remained the same.

As an amount of \$1,098.22 is entirely inadequate to provide properly for depreciation and to allow a reasonable return upon the investment, it is evident that from a financial standpoint the applicant is entitled to an increase in rates. The applicant in the past, however, has not furnished satisfactory telephone service and has not complied with the recommendations made in the Commission's decision * of June 21, 1919. In view of this fact, we do not feel justified in authorizing any increase in rates at the present time.

In order to afford the applicant an incentive to hasten the improvement of the service, however, we shall provide that the rates requested, which we believe are reasonable, will be authorized as soon as the service department reports that the applicant has complied with its recommendations and that satisfactory service is being furnished.

It is, therefore, ordered, That the Farmers and Merchants Telephone Company continue in effect its present rates as set out above until such time as the service department of the Commission shall report that service conditions are satisfactory and until a supplementary order shall be issued by the Commission authorizing the company to place in effect the increased rates requested.

It is further ordered, That jurisdiction be retained in this case in order that a supplementary order may be issued authorizing increased rates when in our judgment service conditions warrant an increase.

Dated at Madison, Wisconsin, this twenty-third day of November, 1921.

* See Commission Leaflet No. 93, p. 1064.

ONTARIO.

The Railway and Municipal Board.

In re APPLICATION OF THE BOLTON TELEPHONE COMPANY,
LIMITED, FOR AUTHORITY TO INCREASE THE CHARGES FOR
TELEPHONE SERVICE.

P. F. 6200.

Decided September 17, 1921.

**Increase in Rates Authorized — Reserve for Depreciation Ordered Set
Aside.**

ORDER.

Upon the application of the above-named applicant, upon reading the report of D. M. McIntyre, Esquire, chairman, who heard the evidence adduced on behalf of all parties, statements of assets and liabilities, receipts and disbursements and the other material filed,

The Board orders, subject to the several conditions prescribed in this order, that the applicant, The Bolton Telephone Company, Limited, be authorized to charge the following rates for telephone service, to take effect as from July 1, 1921:

	<i>Per Annum.</i>
Local service	\$21 25
Rural party line service.....	17 50

These charges to be subject to a discount of 20 per cent. upon all amounts paid within thirty days from the date of rendering the account for same.

The Board further orders:

1. That for the purpose of providing a fund to meet the cost of the renewal of its plant and equipment, the applicant shall on December 31, 1921, and each year thereafter, set aside out of its earnings a sum equal to not less than 5 per cent. of the total value of the plant and equipment used in the applicant's business on December 31 in each such

year. The fund so provided shall, unless otherwise authorized by the Board, be applied exclusively to the cost of renewing such portion of the said plant and equipment as may from time to time be rendered necessary by depreciation or obsolescence, and after deducting therefrom such amounts as may have been so expended in any one year, the residual amount shall be deposited in a chartered bank at interest, and the money so deposited may, with the approval of the Board, be expended in new construction or extensions or additions to the property of the company, or with the like approval may be invested in interest-bearing securities; and all interest accruing from any portion of the depreciation fund so deposited or invested, and such portion of the earnings fixed by the Board as attributable to the moneys so expended in new constructions, extensions or additions, shall from time to time be carried to the credit of the said fund.


2. That the applicant shall on or before the fifteenth day of January in each year furnish the Board with a report setting forth (a) the total amount standing at the credit of the fund referred to in Clause 1 hereof on the thirty-first day of December in the preceding year; (b) the amount of such fund which has been temporarily used in the purchase of securities; (c) the names and values of the securities so purchased, together with (d) a certified statement from the bank in which the fund is deposited showing the amount standing at the credit of such fund on the last-named date.

3. That the applicant shall keep separate records of all expenditures upon the construction, operation, maintenance and renewal of its plant and equipment, and shall each year furnish its shareholders with an annual report and balance sheet in the form approved of by this Board as set forth on pages 151 to 154 of Telephone Systems, 1920.

And the Board makes no order for costs, save and except that the applicant shall pay \$10.00 for the law stamps required for this order.



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MAR 28 1922

 American Telephone and Telegraph Company
Legal Department
195 Broadway, New York, N. Y.

COMMISSION LEAFLET No. 122

**Recent Commission Orders, Rulings and Decisions
from the following States:**

**California
Florida
Illinois
Indiana
Kansas
Maryland
Michigan
Missouri**

**Nebraska
New York
North Dakota
Ohio
Oklahoma
Oregon
South Carolina
Wisconsin**

**Wyoming
and from
Interstate Commerce Commission**

FEBRUARY 1, 1922



INTERSTATE COMMERCE COMMISSION.

In re JOINT APPLICATION OF THE CUMBERLAND TELEPHONE AND TELEGRAPH COMPANY, INCORPORATED, THE EAST TENNESSEE TELEPHONE COMPANY OF VIRGINIA, THE BRISTOL TELEPHONE COMPANY AND THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY OF VIRGINIA FOR A CERTIFICATE THAT THE PROPOSED CONSOLIDATION OF CERTAIN TELEPHONE PROPERTIES IN VIRGINIA AND TENNESSEE WOULD BE OF ADVANTAGE TO THE PERSONS TO WHOM SERVICE IS TO BE FURNISHED AND IN THE PUBLIC INTEREST.

Finance Docket No. 1633.

Decided December 14, 1921.

Certificate that Consolidation of Properties would be in Public Interest Granted.

REPORT.

The Cumberland Telephone and Telegraph Company, Incorporated, the East Tennessee Telephone Company of Virginia, the Bristol Telephone Company, and The Chesapeake and Potomac Telephone Company of Virginia, hereinafter referred to, respectively, as the Cumberland company, the East Tennessee company, the Bristol and the Chesapeake company, on October 27, 1921, filed a joint application pursuant to the provisions of Section 5 of the Interstate Commerce Act, as amended by Act of Congress approved June 10, 1921, amending Section 407 of the Transportation Act, 1920, for a certificate that the proposed consolidation of certain telephone properties owned by the applicants and described in said application will be of advantage to the persons to whom service is to be rendered and in the public interest.

By the terms of a tentative agreement entered into by and between the four applicants, certain telephone prop-

erty is to be conveyed to a corporation to be known as the Inter-Mountain Telephone Company, hereinafter referred to as the consolidated company, which property is described generally as follows:

The Chesapeake company will convey all of the exchange plant owned by it in Washington and Smyth Counties, Virginia, comprising a number of local exchanges and certain toll lines, receiving in exchange therefor \$20,200, par value, of the second preferred 6 per cent. non-cumulative, non-voting capital stock of the consolidated company, and \$39,300, par value, of its common stock. The estimated present structural value of these properties is \$59,594.75, not including any allowance for intangibles.

The Cumberland company will convey exchange property at seven exchanges in Tennessee having an estimated structural value of \$211,362.69, for which the Cumberland will receive \$57,800, par value, of the second preferred 6 per cent. non-cumulative, non-voting capital stock of the consolidated company and \$105,700, par value, of its common stock, together with cash in the sum of \$11,221.34, representing the value of net additions to the property since the date of the contract.

The East Tennessee company will convey a small amount of its exchange property owned by it, which, however, is included in the transaction as a part of the property of the Cumberland company last above described.

The Bristol company will convey its exchange property located at Bristol, Johnson City, and Jonesboro, Tennessee, and at Abington and Glade Spring, Virginia, receiving in exchange the first preferred 6 per cent. cumulative, voting stock of the consolidated company of the par value of \$53,000 and the common stock of the latter of the par value of \$124,000. The value of the property of the Bristol company is estimated at \$193,086.02, not including any allowance for intangibles.

It thus appears that the consolidated company will issue \$400,000, par value, of securities of which \$322,000 will be voting stock, and that of this latter amount the Bristol com-

pany will hold \$177,000, par value. The Bristol company is a part of the so-called independent group and will, through its ownership of a majority of the voting stock, control the consolidated company. After completion of unification of the various exchanges, it is estimated that the consolidated company will serve approximately 5,150 subscribers, of whom 2,475 will be served at Bristol, Virginia-Tennessee. The Tennessee and Virginia Commissions have approved the consolidation and the several municipalities affected have by ordinance authorized the transaction. The consolidated company will be subject to the Interstate Commerce Act. Final action has not yet been taken looking to the establishment of local rates for the consolidated property, but this matter is within the control of the respective state commissions.

Duplicate telephone plants owned by one or the other of the four applicants are operated at Bristol, Johnson City and Abington. At Bristol about 40 per cent. of the stations of the Cumberland company are duplicated by the Bristol company's stations. At Johnson City 30 per cent. of the Cumberland company's stations are duplicated by the Bristol company, and at Abington the percentage of duplication is 32 per cent. The total investment of the consolidated company upon which rates in the future must be based will be considerably less than the aggregate investment of the four companies now giving service in the same localities, but the exact effect of the consolidation upon the present schedule of rates has not yet been determined. Telephone users in these localities have been subjected to much inconvenience by reason of the maintenance of competing exchanges, and telephone service in those communities, as a result of this and other adverse conditions, has been unsatisfactory. The largest single exchange in the territory is that of the Bristol company, which operates only 91 miles of toll line and affords no telephone connection beyond its own circuits. The consolidated company, however, will connect at its own switchboard with the so-called Bell toll lines and supply needed long distance service to all parts of the country.

Upon the facts presented we find that the proposed consolidation, as set forth in the joint application, will be of advantage to the persons to whom service is to be rendered and in the public interest. A certificate to that effect will be issued.

CERTIFICATE.

A hearing having been had in this proceeding, and full investigation of the matters and things involved therein having been had, and said Division having, on the date hereof, made and filed a report containing its findings of fact and conclusions thereon, which said report is hereby referred to and made a part hereof;

It is hereby certified, That the proposed consolidation of certain telephone properties owned by the applicants and described in said report will be of advantage to the persons to whom service is to be rendered and in the public interest.

December 14, 1921.

In re JOINT APPLICATION OF THE OHIO BELL TELEPHONE COMPANY AND THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY FOR A CERTIFICATE THAT THE ACQUISITION BY THE OHIO BELL TELEPHONE COMPANY OF THE PROPERTY OF THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY IN THE STATE OF OHIO WOULD BE OF ADVANTAGE TO PERSONS TO WHOM SERVICE IS TO BE RENDERED AND IN THE PUBLIC INTEREST.

Finance Docket No. 1692.

Decided December 19, 1921.

Acquisition of Property Authorized.

REPORT.

The Ohio Bell Telephone Company, hereinafter referred to as the Ohio company, and The Chesapeake and Potomac Telephone Company, hereinafter called the Chesapeake company, on November 8, 1921, filed a joint application

pursuant to the provisions of Section 5 of the Interstate Commerce Act, as amended by Act of Congress approved June 10, 1921, amending Section 407 of the Transportation Act, 1920, for a certificate that the acquisition by the Ohio company of the property of the Chesapeake company situated in the State of Ohio, will be of advantage to the persons to whom service is to be rendered and in the public interest.

The Chesapeake company owns and operates 29 telephone exchanges in 21 counties in eastern Ohio serving 26,726 subscribers. It also operates 740 pole miles of toll line in that portion of the State. This company also furnishes telephone service in Maryland, Virginia, West Virginia, and the District of Columbia. At eight points in Columbiana County, Ohio, the Chesapeake company's exchanges are duplicated by competing exchanges of the Ohio company, which has at these points a total of 3,411 subscribers as against 7,120 subscribers of the Chesapeake company. These eight exchanges of the Ohio company were formerly the property of The Ohio State Telephone Company, a member of the so-called independent group, but these exchanges became the property of the Ohio company in a recent merger. Duplication therefore now exists between the two members of the so-called Bell group and it is desired to make the transfer so as to relieve the Chesapeake company from the necessity of operating in the State of Ohio at all. The Ohio company is subject to the Interstate Commerce Act.

The Public Utilities Commission of Ohio has heretofore approved the proposed merger* and announced that the Ohio company must proceed to unify the service at such duplicated exchanges as soon as rates to be charged for such unified service shall have been fixed and determined in the manner provided by law.

The agreement by which the proposed acquisition is to be brought about provides for the transfer to the Ohio

* See *infra*, page 452.

company of all telephone property and assets of the Chesapeake company located within the State of Ohio, together with all bills and accounts receivable and deferred debits, and all material and supplies, fixtures, tools, and other property used in the operations of the Chesapeake company in that State. The consideration is fixed at the sum of \$3,231,784.47 as of August 31, 1921, plus the cost of net additions to the properties between that date and the date of transfer as determined from the books of the Chesapeake company. The property will be acquired free and clear of all incumbrance except certain deferred credit items and fixed capital reserve and surplus. Evidence was offered tending to show a present value of the property affected of considerably more than the amount to be paid by the Ohio company.

The primary purpose of the transfer as regards the property at points where duplication exists is to eliminate the operation of two properties in the same municipality, thus avoiding the inconvenience and added expense which results from such duplication. With respect to the remaining 21 exchanges, it is pointed out that operation of these by the Ohio company will be more economical and efficient since these properties will be merged with the Ohio company's existing system in that State and become an integral part thereof, eliminating considerable general office and other overhead expense which must necessarily be incurred by the Chesapeake company so long as it operates in Ohio. No advance in rates at these 21 exchanges is likely to result because of the transfer. Such increased rates as may come about at the eight points where unification is to be effected will be determined by the State Commission in future proceedings.

Upon the facts presented, we find that the proposed acquisition, as set forth in the joint application herein, will be of advantage to the persons to whom service is to be rendered and in the public interest. A certificate to that effect will be issued.

CERTIFICATE.

A hearing having been had in this proceeding, and full investigation of the matters and things involved therein having been had, and said Division having, on the date hereof, made and filed a report containing its findings of fact and conclusions thereon, which said report is hereby referred to and made a part hereof;

It is hereby certified, That the acquisition by The Ohio Bell Telephone Company of the property of The Chesapeake and Potomac Telephone Company as described in said report will be of advantage to the persons to whom service is to be rendered and in the public interest.

December 19, 1921.

CALIFORNIA.

Railroad Commission.

In re APPLICATION OF SOUTHERN CALIFORNIA TELEPHONE COMPANY FOR AUTHORITY TO PURCHASE LAND IN THE CITY OF LOS ANGELES AND TO ISSUE A PROMISSORY NOTE IN PAYMENT THEREFOR.

Application No. 7084 — Decision No. 9559.

Decided September 27, 1921.

Issue of Note Authorized.

OPINION.

Southern California Telephone Company asks permission to issue a \$150,000 6 per cent. serial note and execute a mortgage to secure the payment of the note.

The company reports that it has arranged to purchase at a cost of \$150,000 from the Mercantile Fireproof Building Company a parcel of land situated in the city of Los Angeles and described as follows:

"The southerly 250 feet of Block A of the Obear Tract, in the city of Los Angeles, county of Los Angeles, State of California, as per map recorded in book 2, page 40, of maps, in the office of the county recorder of said county, more particularly described as follows:

Beginning at the southwest corner of said Block A; thence northerly along the easterly line of San Pedro Street, 250 feet, thence easterly to a point in the easterly line of said Block A, distant northerly 250 feet from the southeast corner of said block; thence southerly along said easterly line to the southeast corner of said block; thence westerly along the southerly line of said block, to the point of beginning.

Also a right-of-way for ingress and egress over the following described strip of land, to-wit:

Beginning at the point in the westerly line of said Block A of the Obear Tract, distant northerly 250 feet from the southwest corner of said block; thence easterly to a point in the easterly line of said block, distant northerly 250 feet from the southeast corner of said block; thence northerly along said easterly line 56 feet; thence westerly to a point in the westerly line of said block, distant northerly 56 feet from the point of beginning; thence along said westerly line 56 feet to the point of beginning.

Subject to taxes, fiscal year 1921-1922."

I. F. Dix, applicant's plant superintendent, testified that it was necessary for the company to purchase the property and to construct a building thereon to be used by the company for garage, repair shop and storeroom purposes. A statement submitted shows that through the acquisition of the properties and the construction of the necessary building, the company will be able to save approximately \$18,786 a year.

The deed of trust of Southern California Telephone Company contains an after-acquired property clause. Because of this clause, it is probable that the properties which the company intends to acquire will be purchased from the Mercantile Fireproof Building Company by an individual, who in turn will transfer the property to applicant subject to the indebtedness issued by him in payment for the properties. It appears that the owner of the properties is unwilling to accept a second mortgage securing the notes issued in payment for the properties. If the properties are acquired by an individual and notes issued by him in payment therefor and a mortgage executed to secure the payment of such notes, the mortgage will constitute a first lien and the deed of trust of Southern California Telephone Company, when it acquires the properties, a second lien. In its original application, it was the intention of the Southern California Telephone Company to issue in payment for the properties a promissory 6 per cent. note in the sum of \$150,000 payable within ten years and to execute a mortgage on the properties to secure the payment of the note. A copy of both the note and mortgage has been filed in this proceeding. The company agrees to pay the note in ten equal installments, the first installment being due and payable July 7, 1922. I believe the order herein should permit applicant to proceed either under its original plan or to acquire the properties subject to an indebtedness of \$150,000 secured by a first mortgage.

I herewith submit the following form of order.

ORDER.

Southern California Telephone Company having applied to the Railroad Commission for permission to issue a \$150,000 note and execute a mortgage, a public hearing having been held and the Commission being of the opinion that the money, property or labor to be procured or paid for by such issue is reasonably required for the purpose specified in this order and that the expenditures for such purpose are not in whole or in part reasonably chargeable to operating expenses or to income;

It is hereby ordered, That Southern California Telephone Company be, and it is hereby, authorized to issue a \$150,000 6 per cent. note payable within ten years, in the same form as the note filed in this proceeding and marked Exhibit A, said note being authorized to be issued for the purpose of paying for the properties described in the foregoing opinion; or to acquire said properties subject to the payment of a \$150,000 indebtedness secured by a first mortgage and assume the payment of such indebtedness.

It is hereby further ordered, That Southern California Telephone Company be, and it is hereby, authorized to execute a mortgage substantially in the same form as the mortgage filed in this proceeding and marked Exhibit B, provided that the authority herein granted to execute said mortgage is for the purpose of this proceeding only and is granted insofar as this Commission has jurisdiction under the terms of the Public Utilities Act and is not intended as an approval of said mortgage as to such other legal requirements to which said mortgage may be subject.

The authority herein granted is subject to further conditions as follows:

1. The Commission will not, because of the authority herein granted to issue a note, be bound to include in a rate base the consideration being paid for the properties which Southern California Telephone Company intends to acquire from the Mercantile Fireproof Building Company.

2. Southern California Telephone Company shall keep such record of the issue and sale of the note herein author-

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ized and of the disposition of the proceeds as will enable it to file on or before the twenty-fifth day of each month a verified report as required by the Railroad Commission's General Order No. 24,* which order insofar as applicable is made a part of this order.

3. The authority herein granted will not become effective until applicant has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee amounts to \$150.

4. The authority herein granted will apply only to such note as may be issued on or before December 1, 1921.

The foregoing opinion and order are hereby approved and ordered filed as the opinion and order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this twenty-seventh day of September, 1921.

In re APPLICATION OF ASSOCIATED TELEPHONE COMPANY FOR LEAVE TO DISCONTINUE THE INSTALLATION OF TELEPHONES FOR PUBLIC USE UPON THE PREMISES OF SUBSCRIBERS AT FLAT MONTHLY RATES, AND TO SUBSTITUTE THEREFOR PUBLIC PAY STATIONS AT LOCAL SWITCHING RATES.

Application No. 6983 — Decision No. 9831.

Decided December 1, 1921.

Leave to Withdraw Service to the Public at Flat Monthly Rates Paid by Subscribers and Substitute Pay Stations Therefor Denied.

OPINION.

Associated Telephone Company, petitioner in this proceeding, owns and operates local telephone exchanges in the cities of Long Beach and San Bernardino. The rate schedules for service at these exchanges, on file with the Railroad Commission and in effect, provide only for flat monthly rates for unlimited local exchange service.

* See Commission Leaflet No. 9, p. 82.

In this proceeding petitioner is asking authority to discontinue certain of its flat rate telephones and to substitute pay stations with a local switching rate of 5 cents per switch in lieu thereof.

Public hearings were held in Los Angeles on July 14 and on September 21 and 22, 1921.

The application sets forth that it has been the practice of petitioner heretofore upon application by the owner or occupant of the premises on which service is to be provided to install service at flat rates, the service which it is now desired to withdraw being accessible for public use without other payment to petitioner than the flat rate paid by the subscriber.

It is further alleged that this practice leads to much abuse of the service and that those of the representative business subscribers who were canvassed with a view to eliminating the present practice, almost without exception, expressed themselves as favorable to the change on condition, however, that other subscribers in the same line of business also agree to the proposed change. During the course of the hearings considerable opposition developed, however, from the representatives of both of the cities and from representatives of subscribers of both exchanges.

From the evidence in this case it appears that there are two general classes of cases in which the service is used by the public or is accessible for such use.

The first class consists of cases in which telephones have been placed in business houses or other places of a more or less public or semi-public nature for the convenience of the public generally, but chiefly for the accommodation of the patrons of the establishment in which they are located. In these cases the use of the service is solely by the public, although the service is paid for by the subscriber or person on whose premises and under whose direction the service was installed in the form of a flat monthly rate. Separate telephones are provided in these cases for the use of the subscriber on whose premises the public telephone is located.

The other class consists of cases in which the service is used by the subscriber or person on whose premises the telephone is located, the telephone being placed in a location where it is accessible for use by the public also. In these cases also, the service is paid for by the subscriber in the form of a flat monthly rate.

In both classes of cases no charge is made to the public for the use of the service.

Exhibits filed in the case by petitioner show that as of the dates of the hearings there were 29 telephones of the first class mentioned above and 279 of the second class, installed and in use in Long Beach and in San Bernardino, 8 of the first and 194 of the second class. The total number of telephones of all classes in service in the Long Beach and San Bernardino exchanges is approximately 11,000 and 2,000, respectively.

The percentages to total telephones in service of telephones accessible for public use are thus shown to be as follows:

Long Beach:

Telephones used by public only:	
Per cent. of total telephones used in Long Beach.....	0.26
Telephones used by subscriber and public:	
Per cent. of total telephones in Long Beach.....	2.54
Total telephones of both classes:	
Per cent. of total telephones in Long Beach.....	2.8

San Bernardino:

Telephones used by public only:	
Per cent. of total telephones in San Bernardino.....	0.4
Telephones used by subscriber and public:	
Per cent. of total telephones in San Bernardino.....	9.7
Total telephones of both classes:	
Per cent. of total telephones in San Bernardino.....	10.1

Long Beach and San Bernardino Combined:

Telephones used by public only:

Per cent. of total telephones in Long Beach and San Bernardino	0.28
--	------

Telephones used by subscriber and public:

Per cent. of total telephones in Long Beach and San Bernardino	3.64
--	------

Total telephones of both classes:

Per cent. of total telephones in Long Beach and San Bernardino	3.92
--	------

At the first hearing of the case held on July 14, petitioner filed as Exhibit No. 1 a statement of traffic for the month of June at Long Beach. From this statement it appears that the average number of calls answered per day from the total of all classes of telephones in service was 6.8, while the average from the flat rate telephones used by the public was 130. It was disclosed by the testimony of witnesses, however, that the record of calls from public telephones was taken from only 11 of such stations, these stations being used by the public only, and those selected for the record of calls placed were the most frequently used of all the telephones accessible for public use in Long Beach.

No record was presented in this hearing to show the extent to which such telephones in San Bernardino are used. Petitioner was accordingly directed by the Commission to record subsequent service observations covering a broader and more representative showing of the average use of such telephones. These observations were taken by petitioner and filed at the hearing on September 21 as petitioner's Exhibits No. 2 for San Bernardino and No. 3 for Long Beach.

The observations in Long Beach were taken over two periods of four days each from 21 of the 28 telephones used by the public only, including 9 of the 11 previously observed, and over a period of eight days from 47 of the total of 279 telephones used by subscribers and the public.

In San Bernardino the observations cover a period of nine days from all of the 8 stations used by the public only,

and varying periods of three and four days from 24 of the 194 telephones used by subscribers and the public.

Similar observations were also recorded from a limited number of telephones not accessible to public use in Long Beach and San Bernardino.

The result of these various observations recorded by petitioner shows the average use of the service expressed in number of calls per day as follows:

	<i>Exhibit No. 1</i>		<i>Exhibit No. 3</i>		<i>Exhibit No. 2</i>	
	<i>Long Beach</i>		<i>Long Beach</i>		<i>San Bernardino</i>	
	<i>Number</i>	<i>Average</i>	<i>Number</i>	<i>Average</i>	<i>Number</i>	<i>Average</i>
	<i>Observa-</i>	<i>Calls</i>	<i>Observa-</i>	<i>Calls</i>	<i>Observa-</i>	<i>Calls</i>
	<i>tions</i>	<i>Per Day</i>	<i>tions</i>	<i>Per Day</i>	<i>tions</i>	<i>Per Day</i>
Used by public only	11	130	42	78.1	16	34.8
Used by subscriber						
and public .....	.....	.....	47	33.1	25	17.2
Not accessible for						
public use .....	.....	.....	36	15.5	9	8.5

Service observations by the city of San Bernardino have also been recorded and filed as protestants' Exhibits No. 1 and No. 4.

Protestants' Exhibit No. 1 shows a total of 47 observations recorded from 29 telephones used by the subscriber and the public with an average of 8.5 calls per day from these telephones. Of these average daily calls 7.4 were calls used by the subscriber and 1.1 by the public. Protestants' Exhibit No. 4 shows four observations from 3 of the 8 telephones in San Bernardino used by the public only, with an average of 13 calls per day. Similar observations by protestants in Long Beach were not presented.

It appears from the exhibits filed by petitioner that although the average daily use of telephones which are accessible for public use is approximately from 100 to 200 per cent. greater than the use of telephones which are not accessible for public use, the percentage of the former to the total telephones in service particularly in Long Beach is so low as to be of no particular consequence insofar as the effect on the total volume of traffic is concerned.

In San Bernardino the same comparative use of telephones accessible for public use is shown by petitioner's exhibits, and the percentage of these telephones to the total telephones in service is considerably greater than in Long Beach. The exhibits filed by the city, however, show that the average use of telephones which are used by the subscriber and by the public in San Bernardino is approximately the same that the petitioner's exhibit shows for telephones used by subscribers only, and of the telephones used by the public only, the observations recorded by the city show the use to be but 38 per cent. approximately of that shown by petitioner's exhibit.

It is urged by petitioner that much of the use to which these telephones is put by the non-paying public is trivial in character, and that it results in an unwarranted burden on the traffic during the hours of peak traffic load, reflecting an undesirable and detrimental effect on the general service.

It is further claimed by petitioner that it will entail the installation of additional central office equipment and the employment of additional operators if continued. Protestants urge on the other hand that the service is not used for trivial purposes; that its use is largely by persons having telephones at other locations within the exchange and that so far as those telephones that are provided solely for the use of the public are concerned, not only are they an asset to the business paying for the service which is thus afforded the public but they also serve to avoid the public use of telephones required for private business purposes.

With the relatively low percentage of total telephones of these two classes now in use, even though the amount of traffic originating from them undoubtedly is very considerably heavier than the average traffic originating from other subscribers' stations, petitioner's contention that their continued use will entail additional capital outlay and operating expenses does not appear to be tenable.

It is true that if petitioner were allowed by the Commission to substitute pay stations for telephones now used

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by the public only and paid for only by the subscriber that the public use of telephones required for the private business of subscribers could be avoided as effectively perhaps as by the present practice.

It is also true that petitioner should not be required to provide service for the public without adequate payment therefor, but the question as to whether the rates now paid by petitioner's subscribers for service furnished the public are adequate rates goes to the reasonableness of the present rates. That question is not at issue in this proceeding. On the other hand, as to those cases in which subscribers permit the public use of telephones which are used also for their private business, it would not be an easy matter effectively to prohibit or regulate such joint use, and if petitioner were permitted by the Commission to require these subscribers to make use of pay stations for their own service whenever it might appear that the service would be accessible for public use, such permission would be susceptible of abuse and discrimination.

It is my opinion that the substitution of pay stations for flat rate service in this case would prove more harmful than beneficial both to petitioner and to subscribers, and that under the circumstances the application should be denied. The following order is recommended:

ORDER.

Associated Telephone Company having filed its application with the Railroad Commission asking leave to withdraw certain service now provided on subscribers' premises at flat monthly rates for public use and to substitute therefor public pay stations, and asking authority to establish a rate of 5 cents for each local call originating from such public pay stations; public hearings having been held; the Commission being fully apprised, and the matter having been submitted; and it appearing to the Commission as set forth in the opinion preceding this order that the application should be denied,

It is hereby ordered, That the application herein be, and it is hereby, denied.

The foregoing opinion and order are hereby approved and ordered filed as the opinion and order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this first day of December, 1921.

FLORIDA.

Railroad Commissioners.

In re **JOINT SCHEDULES OF RATES AND CHARGES FOR THE SERVICE FURNISHED BY THE SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY WITHIN THE STATE OF FLORIDA.**

File Nos. 372, T-372-A, T-372-B.

Decided December 20, 1921.

Increase in Exchange Rates Throughout the State Authorized — Classification of Toll Service, Increase in Toll Rates and Increase in Mileage Rates Denied — Application for Service Connection Charges Denied and Deposit Requirements Continued — Suspension of Service Rule and Restoration Charge Authorized.

ORDER.

1. On application of the Southern Bell Telephone and Telegraph Company to increase its toll and exchange rates and charges for services furnished by it within the State of Florida, the Railroad Commissioners of the State of Florida gave written notice that on the fifteenth day of November, 1920, at 10 o'clock A. M., they would be in session in their hearing room at Tallahassee, Florida, to hear and consider the applicant's petition and such other matters as may properly arise in the premises.

2. Pursuant to said notice the above-entitled cause came on for hearing before said Commissioners at the time and place set forth in said notice, and then and there appeared *Hunt Chipley*, vice-president and counsel, *J. M. B. Hoxsey*, first vice-president, *J. E. Jagoe*, assistant to first vice-president, and *David Laird*, general manager, all appearing for the Southern Bell Telephone and Telegraph Company; and at said time and place there also appeared: *R. W. Pearman, Jr.*, secretary of the Sanford Chamber of Commerce; *Eugene Masters*, city manager of the city of

St. Augustine, Florida; *George G. Herring*, city attorney of the city of Sanford, Florida; *J. W. Roddenberry* of the St. Augustine Board of Trade; and *A. H. King*, attorney, appearing for the people of Jacksonville, Florida.

3. And at said time and place said Commissioners heard and took the testimony of witnesses given under oath, and heard all parties desiring to be heard; and then and there said Commissioners announced that they had no evidence before them except the evidence submitted by the applicant company, and while there was no reason to believe that the evidence offered by the telephone company was not true, nevertheless the Commissioners would not grant any increases in the telephone rates and charges of the telephone company in the State of Florida until an audit was had by the expert accountant and analyst of the Commission of the books and records of the applicant and an examination made by the telephone engineer of the Commission of its physical properties; and said Commissioners did then and there recess the hearing pending such audit and examination, and made announcement that an adjourned hearing date would be set as soon as such audit and examination was completed.

4. That on the eleventh day of May, 1921, the said Commissioners gave written notice to all interested parties that the Commissioners' audit of the books and records of the applicant company and the examination of its properties had been completed, and that on Wednesday, May 18, 1921, at 10 o'clock A. M., the said Commissioners would be in session at their office in the city of Tallahassee, Florida, to resume the hearing of the above-entitled cause; and pursuant to said notice of resumption of hearing said cause came on to be further heard before said Commissioners at the time and place stated in said notice, and then and there appeared *J. M. B. Hoxsey*, first vice-president, and *Hunt Chipley*, counsel, appearing for the Southern Bell Telephone and Telegraph Company; and at said time and place there also appeared: *George G. Herring*, city attorney of Sanford, Florida; *John B. Jones*, city attorney

of Pensacola, Florida; *P. R. Perry*, mayor of St. Augustine, Florida; *W. A. Bours*, chairman, committee of public affairs, city council, Jacksonville, Florida; *Senator M. O. Overstreet*, representing the Orlando Chamber of Commerce; *E. H. Slappy* and *L. B. Allen* of the Gadsen County Board of Trade; *Dr. B. C. Harrell* and *Claude Herring*, representing the city of Havana, Florida.

5. And on said eighteenth day of May, 1921, at said place said Commissioners heard and took the testimony under oath of *J. M. B. Hoxsey* on behalf of the applicant telephone company; and also took the testimony under oath of *C. W. Hillman*, accountant and statistician, and *A. B. Green*, telephone engineer, for said Commissioners; and heard all parties desiring to be heard; and took said matter under advisement.

6. That on the twenty-third day of November, 1921, the Southern Bell Telephone and Telegraph Company made formal application to said Commissioners for assignment of said cause for oral argument upon the evidence submitted; whereupon said Commissioners entered their order assigning said case for argument December 8, 1921, at 10 o'clock A. M., in the hearing room of the Commissioners at Tallahassee, Florida, and gave public written notice thereof to all parties interested.

7. That on the eighth day of December, 1921, at 10 o'clock A. M., in the hearing room of the said Commissioners at Tallahassee, Florida, said cause came on for oral argument before said Commissioners, and then and there appeared *Hunt Chipley*, counsel, and *P. O. Knight*, attorney for the applicant company; *George G. Herring*, city attorney of Sanford, Florida; *Louie W. Strum*, assistant city attorney of the city of Jacksonville, Florida, and *John B. Jones*, city attorney for the city of Pensacola, Florida; all of whom made arguments before said Commissioners; and after hearing all parties desiring to be heard said Commissioners took said cause under consideration.

8. And now on this day the said cause coming on for further and final consideration before said Commissioners in regular session at their office in the city of Tallahassee, Florida; and the said Commissioners being fully advised in the premises, do find from the evidence regularly adduced before them at said hearing that the rate of return to the applicant on its total 1920 average investment in Florida is 2.64 per cent., and that said rate of return is unreasonably low.

9. Wherefore, it is ordered by said Commissioners as follows:

EXCHANGE RATES.

(a) That the following schedules of maximum exchange rates and charges for telephone service furnished by the Southern Bell Telephone and Telegraph Company (hereinafter referred to as the telephone company) at its various exchanges, respectively, in the State of Florida, be, and is hereby authorized, to-wit:

SUBSCRIBERS' STATION SERVICE.

	<i>Rates Authorized Per Month</i>
PABLO BEACH.	
<i>Wall Telephone:</i>	
Business, one-party, flat rate.....	\$4 00
Business extension	1 00
Residence, one-party, flat rate.....	2 50
Residence, four-party, flat rate.....	2 00
Residence extension	1 00

	DELRAY.	
<i>Wall Telephone:</i>		
Business, one-party, flat rate.....		3 25
Business, two-party, flat rate.....		2 75
Business, four-party, flat rate.....		2 25
Business extension		1 00
Residence, one-party, flat rate.....		2 00
Residence, two-party, flat rate.....		1 75
Residence, four-party, flat rate.....		1 50
Residence extension		1 00

SUBSCRIBERS' STATION SERVICE.

	<i>Rates</i> <i>Authorized</i> <i>Per Month</i>
GENEVA.	
<i>Wall Telephone:</i>	
Business, one-party, flat rate.....	\$3 25
Business, two-party, flat rate.....	2 75
Business, four-party, flat rate.....	2 25
Business extension	1 00
Residence, one-party, flat rate.....	2 00
Residence, two-party, flat rate.....	1 75
Residence, four-party, flat rate.....	1 50
Residence extension	1 00

GRACEVILLE.	
<i>Wall Telephone:</i>	
Business, one-party, flat rate.....	3 25
Business, two-party, flat rate.....	2 75
Business, four-party, flat rate.....	2 25
Business extension	1 00
Residence, one-party, flat rate.....	2 00
Residence, two-party, flat rate.....	1 75
Residence, four-party, flat rate.....	1 50
Residence extension	1 00

HAVANA.	
<i>Wall Telephone:</i>	
Business, one-party, flat rate.....	3 25
Business, two-party, flat rate.....	2 75
Business, four-party, flat rate.....	2 25
Business extension	1 00
Residence, one-party, flat rate.....	2 00
Residence, two-party, flat rate.....	1 75
Residence, four-party, flat rate.....	1 50
Residence extenaion	1 00

LYNN HAVEN.	
<i>Wall Telephone:</i>	
Business, one-party, flat rate.....	3 25
Business, two-party, flat rate.....	2 75
Business, four-party, flat rate.....	2 25
Business extension	1 00
Residence, one-party, flat rate.....	2 00
Residence, two-party, flat rate.....	1 75
Residence, four-party, flat rate.....	1 50
Residence extension	1 00

SUBSCRIBERS' STATION SERVICE.

	<i>Rates</i> <i>Authorized</i> <i>Per Month</i>
OVIEDO.	
<i>Wall Telephone:</i>	
Business, one-party, flat rate.....	\$3 25
Business, two-party, flat rate.....	2 75
Business, four-party, flat rate.....	2 25
Business extension	1 00
Residence, one-party, flat rate.....	2 00
Residence, two-party, flat rate.....	1 75
Residence, four-party, flat rate.....	1 50
Residence extension	1 00

STUART.	
<i>Wall Telephone:</i>	
Business, one-party, flat rate.....	\$3 25
Business, two-party, flat rate.....	2 75
Business, four-party, flat rate.....	2 25
Business extension	1 00
Residence, one-party, flat rate.....	2 00
Residence, two-party, flat rate.....	1 75
Residence, four-party, flat rate.....	1 50
Residence extension	1 00

MICANOPY.	
<i>Wall Telephone:</i>	
Business, one-party, flat rate.....	3 60
Business, two-party, flat rate.....	3 00
Business, four-party, flat rate.....	2 40
Business extension	1 00
Residence, one-party, flat rate.....	2 40
Residence, two-party, flat rate.....	1 80
Residence, four-party, flat rate.....	1 50
Residence extension	1 00

ST. ANDREWS.	
<i>Wall Telephone:</i>	
Business, one-party, flat rate.....	3 60
Business, two-party, flat rate.....	3 00
Business, four-party, flat rate.....	2 40
Business extension	1 00
Residence, one-party, flat rate.....	2 40
Residence, two-party, flat rate.....	1 80
Residence, four-party, flat rate.....	1 50
Residence extension	1 00

SUBSCRIBERS' STATION SERVICE.

	CHIPLEY	<i>Rates</i>
		<i>Authorized Per Month</i>
<i>Wall Telephone:</i>		
Business, one-party, flat rate.....		\$3 90
Business, two-party, flat rate.....		3 30
Business, four-party, flat rate.....		2 70
Business extension		1 00
Residence, one-party, flat rate.....		2 40
Residence, two-party, flat rate.....		2 10
Residence, four-party, flat rate.....		1 80
Residence extension		1 00

FERNANDINA.

<i>Wall Telephone:</i>		
Business, one-party, flat rate.....		3 90
Business, two-party, flat rate.....		3 30
Business, four-party, flat rate.....		2 70
Business extension		1 00
Residence, one-party, flat rate.....		2 40
Residence, two-party, flat rate.....		2 10
Residence, four-party, flat rate.....		1 80
Residence extension		1 00

GREEN COVE SPRINGS.

<i>Wall Telephone:</i>		
Business, one-party, flat rate.....		3 90
Business, two-party, flat rate.....		3 30
Business, four-party, flat rate.....		2 70
Business extension		1 00
Residence, one-party, flat rate.....		2 40
Residence, two-party, flat rate.....		2 10
Residence, four-party, flat rate.....		1 80
Residence extension		1 00

LAKE CITY.

<i>Wall Telephone:</i>		
Business, one-party, flat rate.....		3 90
Business, two-party, flat rate.....		3 30
Business, four-party, flat rate.....		2 70
Business extension		1 00
Residence, one-party, flat rate.....		2 40
Residence, two-party, flat rate.....		2 10
Residence, four-party, flat rate.....		1 80
Residence extension		1 00

SUBSCRIBERS' STATION SERVICE.

	<i>Rates Authorized Per Month</i>
PANAMA CITY.	
<i>Wall Telephone:</i>	
Business, one-party, flat rate.....	\$3 25
Business, two-party, flat rate.....	2 75
Business, four-party, flat rate.....	2 25
Business extension	1 00
Residence, one-party, flat rate.....	2 00
Residence, two-party, flat rate.....	1 75
Residence, four-party, flat rate.....	1 50
Residence extension	1 00

DE LAND.

<i>Wall Telephone:</i>	
Business, one-party, flat rate.....	4 55
Business, one-party, inward	3 00
Business, two-party, flat rate.....	3 90
Business, four-party, flat rate.....	3 25
Business extension	1 00
Residence, one-party, flat rate.....	2 90
Residence, two-party, flat rate.....	2 60
Residence, four-party, flat rate.....	2 25
Residence extension	1 00

PALATKA.

<i>Wall Telephone:</i>	
Business, one-party, flat rate.....	4 15
Business, one-party, inward	2 75
Business, two-party, flat rate.....	3 25
Business, four-party, flat rate.....	3 00
Business extension	1 00
Residence, one-party, flat rate.....	2 50
Residence, two-party, flat rate.....	2 25
Residence, four-party, flat rate.....	2 00
Residence extension	1 00

DAYTONA.

<i>Wall Telephone:</i>	
Business, one-party, flat rate.....	5 00
Business, one-party, inward	3 00
Business, two-party, flat rate.....	4 35
Business, four-party, flat rate.....	3 75
Business extension	1 00
Residence, one-party, flat rate.....	3 10
Residence, two-party, flat rate.....	2 50
Residence, four-party, flat rate.....	2 15
Residence extension	1 00

SUBSCRIBERS' STATION SERVICE.

	<i>Rates Authorized Per Month</i>
GAINESVILLE.	
<i>Wall Telephone:</i>	
Business, one-party, flat rate.....	\$4 00
Business, one-party, inward	2 50
Business, two-party, flat rate.....	3 50
Business, four-party, flat rate.....	3 00
Business extension	1 00
Residence, one-party, flat rate.....	2 50
Residence, two-party, flat rate.....	2 00
Residence, four-party, flat rate.....	1 75
Residence extension	1 00

	SANFORD.	
<i>Wall Telephone:</i>		
Business, one-party, flat rate.....	4 50	
Business, one-party, inward	2 75	
Business, two-party, flat rate.....	4 00	
Business, four-party, flat rate.....	3 50	
Business extension	1 00	
Residence, one-party, flat rate.....	2 65	
Residence, two-party, flat rate.....	2 15	
Residence, four-party, flat rate.....	1 90	
Residence extension	1 00	

	ST. AUGUSTINE.	
<i>Wall Telephone:</i>		
Business, one-party, flat rate.....	4 00	
Business, one-party, inward	2 50	
Business, two-party, flat rate.....	3 50	
Business, four-party, flat rate.....	3 00	
Business extension	1 00	
Residence, one-party, flat rate.....	2 50	
Residence, two-party, flat rate.....	2 00	
Residence, four-party, flat rate.....	1 75	
Residence extension	1 00	

	ORLANDO.	
<i>Wall Telephone:</i>		
Business, one-party, flat rate.....	4 00	
Business, one-party, inward	2 50	
Business, two-party, flat rate.....	3 50	
Business, four-party, flat rate.....	3 00	
Business extension	1 00	
Residence, one-party, flat rate.....	2 50	
Residence, two-party, flat rate.....	2 00	
Residence, four-party, flat rate.....	1 75	
Residence extension	1 00	

SUBSCRIBERS' STATION SERVICE.

	<i>Rates Authorized Per Month</i>
WEST PALM BEACH.	
<i>Wall Telephone:</i>	
Business, one-party, flat rate.....	\$5 00
Business, one-party, inward	3 00
Business, two-party, flat rate.....	4 35
Business, four-party, flat rate.....	3 75
Business extension	1 00
Residence, one-party, flat rate.....	3 10
Residence, two-party, flat rate.....	2 50
Residence, four-party, flat rate.....	2 15
Residence extension	1 00
PALM BEACH.	
<i>Wall Telephone:</i>	
Business, one-party, flat rate.....	6 25
Business, one-party, inward	3 00
Business, two-party, flat rate.....	5 60
Business, four-party, flat rate.....	5 00
Business extension	1 00
Residence, one-party, flat rate.....	4 15
Residence, two-party, flat rate.....	3 45
Residence, four-party, flat rate.....	3 10
Residence extension	1 00
KEY WEST.	
<i>Wall Telephone:</i>	
Business, one-party, flat rate.....	5 40
Business, one-party, inward	3 00
Business, two-party, flat rate.....	4 80
Business, four-party, flat rate.....	4 20
Business extension	1 00
Residence, one-party, flat rate.....	3 30
Residence, two-party, flat rate.....	2 70
Residence, four-party, flat rate.....	2 40
Residence extension	1 00
PENSACOLA.	
<i>Wall Telephone:</i>	
Business, one-party, flat rate.....	5 00
Business, one-party, inward	2 50
Business, two-party, flat rate.....	4 50
Business, four-party, flat rate.....	3 50
Business extension	1 00
Residence, one-party, flat rate.....	3 00
Residence, two-party, flat rate.....	2 50
Residence, four-party, flat rate.....	2 00
Residence extension	1 00

SUBSCRIBERS' STATION SERVICE.

JACKSONVILLE.		<i>Rates</i>
		<i>Authorized</i>
<i>Wall Telephone:</i>		<i>Per Month</i>
Business, one-party, flat rate.....		\$7 00
Business, one-party, inward		3 50
Business, two-party, flat rate.....		5 75
Business, four-party, flat rate.....		4 50
Business extension		1 00
Business, one-party, message rate, 100 — 3 cents.....		4 50
Residence, one-party, flat rate.....		4 25
Residence, two-party, flat rate.....		3 25
Residence, four-party, flat rate.....		2 50
Residence extension		1 00
Residence, one-party, message rate, 100 — 3 cents.....		3 50

DESK TELEPHONE EQUIPMENT.

(b) That the present additional charge of 25 cents per month for desk telephone equipment at each and every exchange of the telephone company in the State of Florida be, and is hereby, continued.

CLASSIFICATION OF TOLL SERVICE AND TOLL RATES AND CHARGES.

(c) That the application of the telephone company to classify its toll telephone service according to its proposed classification, and to increase its toll rates and charges within the State of Florida be, and is hereby, denied; and the schedules of toll rates and charges now in effect and on file with this Commission shall continue as its maximum rates and charges.

MILEAGE CHARGES.

(d) That the application of the telephone company to increase its mileage charges applying in connection with main stations or private branch exchange systems which are located outside the base rate area but within the exchange area, be, and is hereby, denied; and the mileage charges and method of computing same now in effect and on file with this Commission shall continue.

PRIVATE BRANCH EXCHANGE SERVICE.

(e) That the proposed revision in rates of private branch exchange service be, and is hereby, denied with the following exception, and the rates applying to such service now in effect and on file with this Commission shall continue as the maximum rates, except the rates on trunk lines which are authorized as follows:

CLASS A SYSTEMS.

*Trunk Lines:**Flat Rate:*

Both-way, each, one and one-half individual line, business or residence rate.

Inward, each, three-fourths individual line, business or residence rate.

Message Rate, Both-Way Only, Each:

(In exchanges quoting individual line message rates)

Commercial, individual line, business message rate.

Residence, individual line, residence message rate.

CLASS B SYSTEMS.

*Trunk Lines:**Flat Rate:*

Both-way, each, one and one-half individual line, business or residence rate.

Inward, each, three-fourths individual line, business or residence rate.

Message Rate, Both-Way Only, Each:

(In exchanges quoting individual line message rates)

Commercial, individual line, business message rate.

CLASS D SYSTEMS.

*Trunk Lines:**Flat Rate:*

Both-way, each, one and one-half individual line, business or residence rate.

Inward, each, three-fourths individual line, business or residence rate.

Message Rate, Both-Way Only, Each:

(In exchanges quoting individual line message rates)

Business, individual line, business message rate.

Residence, individual line, residence message rate.

FARMERS' LINE AND FARMERS' EXCHANGE STATIONS.

(f) That the application of the telephone company to revise and increase its farmers' line and farmers' exchange station rates and charges be, and is hereby, allowed as follows:

A. General:

1. Farmers or others located in sparsely settled rural communities may, in joint association, arrange with the telephone company to connect their stations with a central office or toll station of the telephone company. The telephone company does not undertake to provide the facilities for the rendering of telephone service in such communities on account of the extraordinary expense involved.

2. To meet the various conditions in different communities, the telephone company offers four different methods of connection with its systems, classified as follows:

- (a) Class A. Service station line directly connected with a central office.
- (b) Class B. Service station line directly connected with a toll station.
- (c) Class C. Service station switchboard connected with a central office.
- (d) Class D. Service station switchboard connected with a toll station.

3. Contracts for Class A and Class C service stations are executed by a company, association or individual, who are directly responsible to the telephone company for all accounts. Contracts for Class B and Class D service stations are executed by the toll agent, who is responsible to the telephone company for all charges for toll messages.

4. Contracts for Class A and Class C service stations are taken for a minimum period of one year. Contracts for Class B and Class D service stations are taken for the unexpired term of the toll station contract and expire contemporaneously therewith.

5. Except in special cases, contracts will not be accepted where the circuits extend more than 12 miles from the central office or toll station with which such circuits are to be connected.

6. In connection with Class A and Class C service stations, the telephone company provides the pole line and circuits from the central office to an agreed upon junction point at the boundary of the base rate area or the corporate limits in case the corporate limits extend outside the base rate area. In connection with Class B and Class D service stations, the telephone company provides the pole line and circuits from the central office to the toll station.

7. Pole line and circuits beyond the limits specified above are furnished, owned and maintained by the subscribers, except that if facilities are available, circuits may be leased from the telephone company at \$5.00 per annum, per quarter mile or fraction thereof, route measurement. All

leased circuits are maintained by the telephone company, except that any expense, incurred by the telephone company in the maintenance of such leased circuits, because of the condition of the subscriber's portion of the line, is charged to the subscriber. Where space is available subscribers' circuits may be attached to the telephone company's poles as specified under Pole Line attachments.

8. Station equipment is furnished, owned and maintained by the subscribers.

9. All charges, except toll message charges are payable quarterly in advance. Toll message charges are billed monthly in arrears.

10. Listings of service stations are furnished as specified under Directory Listings.

B. Class A Service Stations:

1. The local service area to Class A service station subscribers is the same as to other subscribers of the exchange with which the service station lines are connected.

2. No stations are connected between the point of connection and the telephone company's central office.

3. Flat rate service is furnished at a rate for each station of one-sixth of the rate applicable for individual line business service within the base rate area, the minimum rate per station being 75 cents per month and the minimum rate per line being \$4.50 per month. If there are less than six stations connected to one line, the rate for each station is the rate for six stations divided by the number of stations connected to the line.

C. Class B Service Stations:

1. Switching apparatus for connecting the service station line with the telephone company's toll line is furnished and maintained by the telephone company without additional charge.

2. No charge is made for switching calls from the telephone company's toll line to the service station line. Subscribers are required to arrange at their expense, with the telephone company's toll agent for the switching of calls from the service station to the telephone company's toll line or to other service station lines terminating at the toll station.

3. All Class B service stations take the same toll rates as the toll station to which such stations are connected.

D. Class C Service Stations:

1. The local service area to Class C service station subscribers is the same as to other subscribers of the exchange with which such service station subscribers are connected.

2. The switchboard to which Class C stations are connected is furnished and maintained by the subscribers.

3. Flat rate service is furnished at a rate for each both-way trunk lines of twice the individual line business flat rate applicable within the base rate area, the minimum rate being \$9.00 per month for each such trunk line. Trunk lines to be used for one-way service from the telephone company's central office are not furnished.

4. In the application of toll rates, Class C service station switchboards are treated as toll points for messages beyond the local service area for the exchange with which such switchboards are connected and take their own toll rates instead of the toll rates of the telephone company's exchange.

E. Class D Service Stations:

1. Switching apparatus for connecting the service station line with the telephone company's toll line is furnished by the telephone company without additional charge.

2. The switchboard to which Class D service stations are connected is furnished and maintained by the subscriber.

3. No charge is made for switching calls from the telephone company's toll line to the service station line. Subscribers are required to arrange at their own expense, with the telephone company's toll agent, for the switching of calls from the service station line to the telephone company's toll line or to other service station lines terminating at the toll station.

4. All Class D service stations take the same toll rates as the toll station to which such stations are connected, except where the switchboards are located at a distance from the toll station. In such cases, the service station switchboards are treated as toll points for messages beyond the toll station and take their own toll rates instead of the toll rates of the toll station.

SHORT TERM SERVICE.

(g) That the application of the telephone company to change its short term service contracts at Daytona, Pablo Beach, St. Augustine, West Palm Beach, Delray and Stuart, Florida, from a three-months' to a six-months' period be, and is hereby, authorized as follows:

Contracts for individual line and party line service may be taken for a short term period of six months.

Contracts for extension stations may be taken for a short term period of six months.

All charges for service, equipment and facilities except for additional local messages and toll messages, are payable in advance of the establishment of service.

The charge for the short term period is one and one-half times the monthly rate quoted in the local exchange

tariff for the class of exchange service furnished and one and one-half times the monthly rate quoted in the general exchange tariff for any additional equipment or facilities which may be contracted for by the subscriber.

Subscribers to pre-applied-for short term service may, if desired, arrange for the continuance of service beyond the short term period. In such cases a deposit is collected as prescribed under Deposits and a new contract is taken effective as of the date of installation of service under the short term contract and terminable one year thereafter.

The short term period contracts for other exchanges of the telephone company in the State of Florida shall remain as formerly ordered.

SERVICE CONNECTION CHARGES AND DEPOSIT REQUIREMENTS.

(h) That the application of the telephone company for a proposed schedule of service connection charges be, and is hereby, denied, and the deposit requirements now in effect and on file with this Commission shall continue.

MOVES AND CHANGES.

(i) That the application of the telephone company to increase its charges for moves and changes be, and is hereby, denied, and the charges for moves and changes now in effect and on file with this Commission shall continue as the maximum charges.

SUSPENSION AND RESTORATION OF SERVICE.

(j) That the application of the telephone company to inaugurate a suspension of service rule and a charge for restoration of service be, and is hereby, authorized as follows:

Where the subscriber's right to credit is not established and such subscriber makes extensive use of the toll lines, request for payment of toll charges may be made in advance of the regular billing date, and upon the subscriber's failure to pay such toll charges upon such demand the station may be suspended from all service.

When service has been suspended for non-payment of charges, restoration of service is made only upon payment of all charges due, with the additional payment of a restoration charge of \$1.00.

It is further ordered, That the rates, charges and rules authorized in this order shall become effective on the first day of January, 1922, and that said telephone company shall file its revised tariffs in accordance herewith on or before February 1, 1922.

It is further ordered, That this docket shall remain open for such further and other order in the premises as may be justified, jurisdiction being retained for that purpose.

Done and ordered by the Railroad Commissioners of the State of Florida, in session at their office in the city of Tallahassee, Florida, this twentieth day of December, 1921.*

* WELLS, *Commissioner*, dissents.

ILLINOIS.

Commerce Commission.

In re PROPOSED INCREASES IN RATES FOR TELEPHONE SERVICE
AT BEARDSTOWN OF THE ILLINOIS BELL TELEPHONE
COMPANY.

Case No. 10419.

Decided October 31, 1921.

**Value Determined — Allowance Made for Reserve for Depreciation —
Increase in Rates Denied.**

On March 31, 1921, the Central Union Telephone Company, now the Illinois Bell Telephone Company, filed an application for increased rates at Beardstown. Orders were issued suspending the proposed increases in rates, pending investigation.

The company submitted a statement of the valuation of its property at Beardstown in which it showed the reproduction cost new of the property as of December 31, 1919, including working capital and the cost of establishing the business, to be \$160,532, and the reproduction cost new less depreciation to be \$141,868. The company also submitted a statement of the original cost of the physical property as of December 31, 1919, which showed a total cost of \$110,864. The Commission's engineers made a field check of the inventory of the physical property and prepared an appraisal as of June 30, 1919. The reproduction cost new of the property was estimated by the engineers, as of that date, using average prices for the years 1912 to 1916, inclusive, to be \$87,943, and the reproduction cost new, less depreciation, to be \$72,429. Net additions were added to the physical property from June 30, 1919, to December 31, 1919, together with the value of materials and supplies on hand, which showed a depreciated cost of the physical property as of the latter date of \$76,313.

The company estimated the fair annual allowance for reserve for depreciation to be 7.9 per cent. of the cost new of the depreciable property. The Commission's engineers determined the rate of annual depreciation occurring at the Beardstown exchange to be 6.3 per cent. of the reproduction cost new.

The Commission found that the fair value of applicant's property at Beardstown, including materials and supplies, working capital, development cost, and every element of value, both tangible and intangible, as of December 31, 1920, was \$90,000; that a reasonable allowance as an item

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of operating expense to provide for reserve for depreciation would be \$5,316 plus 6 per cent. of the cost of all annual additions made to the plant after December 31, 1919; that the present annual operating expenses, including the allowance fixed for depreciation, were \$39,210, and that the total annual operating revenues under the present rates, including an estimated allowance for service connection charges, would be \$44,939, which would result in a net annual income of \$5,729, or a return of 6.4 per cent. upon the fair value as found.

Held: That the application for increased rates in the city of Beardstown and vicinity should be permanently suspended, cancelled and annulled.

OPINION AND ORDER.

On March 31, 1920, the Central Union Telephone Company, now the Illinois Bell Telephone Company, filed Rate Schedule I. P. U. C. 2 covering telephone service in Beardstown and vicinity, being an increase over the rates now in effect and authorized by the Commission by provisional order dated November 28, 1919, in Docket Case No. 9314.* A hearing in the matter being deemed necessary the Commission entered an order on April 19, 1920, suspending the proposed increases in rates until August 29, 1920, and subsequently further suspended the said rates pending complete investigation.

The present rates now in effect by authority of the Commission granted in provisional order in Case No. 9314,* and the proposed rates for the principal classes of service furnished are as follows:

	<i>Annual Rates</i>	
	<i>Present</i>	<i>Proposed</i>
Individual line, business stations.....	\$42 00	\$54 00
Two-party line, business stations.....	36 00	48 00
Business extension stations.....	12 00	15 00
Individual line, residence stations.....	27 00	30 00
Two-party line, residence stations.....	21 00	24 00
Residence extension stations.....	6 00	7 20
Rural party line, business stations.....	30 00	30 00
Rural party line, residence stations.....	21 00	24 00
Switching service stations.....	8 00	8 00

* See Commission Leaflet No. 98, p. 564.

All interested parties having been notified the matter came on for hearing before the Commission on July 22, 1920, and March 3, 1921. The Illinois Bell Telephone Company was represented by *Ben B. Boynton* and *William D. Bangs*, attorneys, and no one appeared objecting.

At this point it is pertinent to call attention to the fact that the record in Docket Case No. 9314* was made a part of the record in the case under consideration. Attention is also called to a certain portion of the order in Docket Case No. 9314* which reads:

"2. That for the purpose of making whatever further investigation of the reasonableness of the rates herein established and for the purpose of passing upon the equity of refunds, which may be necessary as provided hereinabove and of entering such further orders as may be found necessary, the Commission retains jurisdiction of the subject-matter both as to the rates involved and the parties herein."

The Illinois Bell Telephone Company submitted summaries of appraisals, a statement of net income and rate of return for the year ending December 31, 1919, and similar statement for the year ending December 31, 1920; statement of additions to investment from July 1, 1919, to December 31, 1919; statement of operating income and expenses for the year ending December 31, 1919, and similar statement for the year ending December 31, 1920; statement of classification and distribution of subscribers' stations as of January 31, 1920; statement of estimated increases in annual expenses resulting from wage increases made and to be made between January 1, 1919, and December 31, 1920, not included in the 1919 operating figures; and proof of publication of notice of intention to apply for authority to increase rates. The company also submitted as part of the record herein the record in Case No. 9314, and at the hearing on March 3, 1920, submitted a statement of original cost of the physical property as of December 31, 1919.

* See Commission Leaflet No. 98, p. 564.

The accounting section of the Commission submitted in the record a report of an examination of the accounts and records of the Beardstown exchange of the Illinois Bell Telephone Company, and the engineering section of the Commission submitted an inventory and appraisal of the physical property connected to the Beardstown exchange as of June 30, 1919.

The record shows that on January 31, 1920, service was being furnished 1,617 stations, exclusive of P. B. X. installations, classified and distributed as follows:

	<i>Number of Stations</i>	<i>Annual Rates</i>	<i>Annual Income</i>
Individual line, business stations.....	132	\$42 00	\$5,544
Two-party line, business stations.....	96	36 00	3,456
Business extension stations	34	12 00	408
Individual line, residence stations.....	148	27 00	3,996
Two-party line, residence stations.....	956	21 00	20,076
Residence extension stations	35	6 00	210
Rural party line, business stations.....	6	30 00	180
Rural party line, residence stations.....	74	21 00	1,554
Switching service stations.....	136	8 00	1,088
TOTAL	1,617		\$36,512
P. B. X. installations			1,080
TOTAL			\$37,592

The Illinois Bell Telephone Company submitted a summary of a reproduction cost valuation of the physical property at Beardstown, and vicinity, as of June 30, 1919, based on average unit costs of material for the five years, 1914-1918 inclusive, and average costs of labor for the year 1918, showing a cost new of \$129,278. The net additions to plant from June 30, 1919, to December 31, 1919, as submitted by the company are \$3,780. The company estimates the working capital to be \$2,481, and the cost of establishing business to be \$24,993. The reproduction cost new of the property as of December 31, 1919, including working capital and cost of establishing business, as estimated by the company, is therefore \$160,532, and the reproduction cost new, less depreciation, is \$141,868.

The statement of original cost of the physical property connected to the Beardstown exchange as submitted by the Illinois Bell Telephone Company, shows a total of \$110,864 as of December 31, 1919. The original cost of the property was determined by assigning to that portion of the plant which has been constructed subsequent to January 1, 1913, the actual voucher totals, plus 6½ per cent. as interest upon invested capital during the construction period. The property in existence as of December 31, 1912, was appraised by using average unit costs of labor and material for the five-year period, 1911 to 1915, inclusive. The record shows that the Illinois Bell Telephone Company considers the original cost statement to be merely an estimate of the cost of constructing the property.

The Commission's engineers made a field check of the inventory of the physical property of the Beardstown exchange and prepared an appraisal as of June 30, 1919. The reproduction cost new of the property as estimated by the Commission's engineers as of that date, using average unit prices for the years 1912 to 1916, inclusive, is \$87,943, and the reproduction cost new, less depreciation, is \$72,429. Net additions to the physical portion of the plant from June 30, 1919, to December 31, 1919, are \$591, and materials and supplies are estimated to be \$3,293, thus indicating a total depreciated cost of the physical property as of December 31, 1919, of \$76,313.

COMPARISON OF APPRAISALS OF BEARDSTOWN EXCHANGE PROPERTY OF
ILLINOIS BELL TELEPHONE COMPANY.

CASE No. 10419.

Items	Original Cost Company December 31, 1919	Reproduction Company, New Depreciation		Cost Commission New Depreciation	
Land.....					
Buildings.....					
Central office equipment.....	\$26,958	\$28,668	\$24,368	\$19,121	\$15,679
Distribution plant.....	62,359	60,265	52,435	34,680	29,074
Subscribers' station equipment...	16,775	18,381	15,351	20,596	16,572
General equipment.....	2,070	2,642	2,107	2,683	2,150
Overhead.....		17,649	14,681	10,863	8,954
SUB-TOTAL.....	\$108,162	\$127,605	\$108,942	\$87,943	\$72,429
Materials and supplies.....	2,702	1,672	1,672	3,293	3,293
GRAND TOTAL.....	\$110,864	\$129,277	\$110,614	\$91,236	\$75,722
Net additions to plant June 30, 1919, to December 31, 1919....		3,780	3,780	591	591
TOTAL, AS OF DECEMBER 31, 1919.	\$110,864	\$133,057	\$114,394	\$91,827	\$76,313

The reproduction new appraisal submitted by the Illinois Bell Telephone Company is based upon mean average unit costs for material for the five years, 1914 to 1918, inclusive, and labor costs for the year 1918. The appraisal presented by the company reflects, therefore, to a greater extent conditions brought about by the World War than if it had been compiled using average prices of labor and material for the same five years. The reproduction new appraisal submitted by the Commission's engineering staff is based upon average unit prices of labor and material for the five years, 1912 to 1916, inclusive. To the difference in unit costs used is due the wide difference in the appraisal amounts as submitted by the company and by the Commission's engineers.

The consideration of unit costs due to war conditions was discussed by Mr. Charles E. Hughes, former Justice of the United States Supreme Court, and Referee appointed by the New York Supreme Court in *Brooklyn Borough Gas Company v. Public Service Commission, First District*, P. U. R. 1918-F, 347, as follows:

"Mr. Shattuck was of the opinion that, in view of the extremely high prices then prevailing it would not be proper to take the actual cost of reproduction as of that time, and for this reason he made an estimate based upon the average cost of various parts of the plant spread over a period of five years ending December 31, 1916. As plaintiff's counsel says, the high cost of material and the scarcity of labor rendered the end of 1916 'a prohibitive time to build public utilities of this sort.' * * *

While it is important to consider the cost of reproduction in determining the fair value of a plant for rate-making purposes, it cannot be said that there is a constitutional right to have the rates of a public service corporation based upon the estimated cost of the reproduction of its property at a particular time regardless of circumstances. To base rates upon a plant valuation simply representing a hypothetical cost of reproduction at a time of abnormally high prices due to exceptional conditions would be manifestly unfair to the public, and likewise to base rates upon an estimated cost of reproduction far lower than the actual bona fide and prudent investment because of abnormally low prices would be unfair to the company. * * *

But it is a different thing, after cost has been defrayed, and the question is as to the compensation to be allowed in excess of cost, to take as the basis for a compensatory return an asserted plant value, far above the actual investment, which is reached merely by expert estimates of a cost of reproduction under abnormal conditions. This would result in allowing a public service corporation to take advantage of a public calamity by increasing its rates above what would be a liberal return not only on actual investment, but upon a normal reproduction cost, in the view that unless it could make an essentially exorbitant demand upon the public it would be deprived of its property without due process of law. The enforcement of the constitutional guaranty does not require the application of any artificial formula. It has constantly been pointed out that the rate base must be what is called 'the fair value of the property,' and that as to this there must be a reasonable judgment based upon a proper consideration of all relevant facts (*Smyth v. Ames*, 169 U. S. 466, 546, 547, 42 L. ed. 819, 849, 18 Sup. Ct. Rep. 418; *San Diego Land and Town Company v. National City*, 174 U. S. 739, 757, 43 L. ed. 1154, 1161, 19 Sup. Ct. Rep. 804; *San Diego Land and Town Company v. Jasper*, 189 U. S. 439, 446, 47 L. ed. 892, 896, 23 Sup. Ct. Rep. 571; *Willcox v. Consolidated Gas Company*, 212 U. S. 19, 41, 53 L. ed. 382, 395, 48 L. R. A. (N. S.) 1134, 29 Sup. Ct. Rep. 192, 15 Ann. Cas. 1034; *Minnesota Rate Cases (Simpson v. Shepard)*, 230 U. S. 352, 434, 57 L. ed. 1511, 1555, 48 L. R. A. (N. S.) 1151, 33 Sup. Ct. Rep. 729, Ann. Cas. 1916-A, 18; *People ex rel. Kings County Light Company v. Willcox*, 210 N. Y. 479, 485, 495, 51 L. R. A. (N. S.) 1, 104 N. E. 911)."

After considering all the evidence in this case bearing upon the valuation of the property herein involved, the estimated original cost, the cost to reproduce, and present value including all overheads, material and supplies, working capital, and all other elements of value, tangible and intangible, the Commission finds the fair value of the property of the Illinois Bell Telephone Company used and useful in furnishing telephone service in Beardstown, and vicinity, as of December 31, 1919, for rate-making purposes is \$90,000.

The record shows that the Illinois Bell Telephone Company estimates a fair annual allowance as an item of operating expenses to provide a reserve against depreciation is 7.9 per cent. of the cost new of the depreciable property, or \$10,496 which should be set aside annually as a reserve for accruing depreciation. The engineering staff of the Commission in the exhibits and testimony presented by Telephone Engineer Wood shows the rate of accruing depreciation in the Beardstown exchange to be 6.3 per cent. of the cost to reproduce and that the sum of \$5,570 would have to be expended annually or be set aside to perpetuate the capital invested in the plant as of June 30, 1919. Applying this same rate to additions to plant from June 30, 1919, to December 31, 1920, would increase this amount by \$37.00, making a total of \$5,607. No consideration apparently is given by the Commission's engineer to interest which might accrue through investment of money held in reserve. Furthermore, the record shows that during the past the company has set aside annual amounts based upon 7.9 per cent. of the cost new of this property. Exhibits submitted by the accounting section of the Commission shows that during the period from January 1, 1913, to December 31, 1919, inclusive, the Illinois Bell Telephone Company set aside as a reserve for accruing depreciation approximately \$5,600,000, that there has been charged against the reserve during this same time approximately \$2,690,000 and that it has accumulated a depreciation reserve in Illinois during this period, January 1, 1913, to December 31, 1919, of

\$2,924,454. The accumulation of this reserve indicates that in the past the company actually put back into the property in replacements, about one-half of what was set aside and would indicate that the annual depreciation amounts set aside by the company are too high.

As often stated by the Commission, a public utility is entitled to a revenue that is sufficient to meet operating expenses, provide a return on the investment and an annual sum to cover accruing depreciation on its property.

Section 14 of the Illinois Public Utilities Act provides,

"That the Commission may from time to time ascertain and determine, and by order fix, the proper and adequate rate of depreciation of the several classes of property for each utility."

From a consideration of the extent and character of this plant and property as shown by the record in this cause, it appears that the sum of \$5,316 set aside annually from the operating revenues of the company will be sufficient to take care of the annual depreciation accruing in the Beardstown exchange, this figure being based on 6 per cent. of the cost to reproduce the physical property as estimated by the Commission's engineers.

Exhibit 1, submitted by the Illinois Bell Telephone Company, shows that the total operating expenses for the year ending December 31, 1920, including the Commission's allowance for depreciation, and also including taxes and other miscellaneous deductions, are \$40,235. The telephone operating expenses, exclusive of depreciation, for the year 1920 exceeded the operating expenses for the year 1919 by \$3,961, and exceeded the operating expenses for the year 1918 by \$15,277. A small portion of this increased expense is due to the actual growth and extension of the plant of the Illinois Bell Telephone Company at Beardstown. The larger portion of the increased expense is due to increased salaries and wages made necessary by economic conditions during the years involved in the comparison.

Careful consideration of the operating expenses for the years 1918, 1919 and 1920, indicates that the item of ex-

pense connected with the repairs of central office equipment is excessive for the years 1919 and 1920. The annual amount of this account is stated in the company's exhibits as follows:

694. *Repairs to Central Office Equipment.*

1918	\$716 83
1919	3,446 89
1920	3,619 45

When the extent, character and estimated value of the central office equipment, indicated by the appraisals submitted both by the company and by the Commission's engineers, are taken into consideration, it appears that the maintenance expense connected with the central office equipment was excessive during the years 1919 and 1920, and that in the future these expenses will be considerably lower.

From all of the evidence at hand, it appears that the operating expenses for the ensuing year including the Commission's allowance for depreciation, and also including taxes and other miscellaneous deductions, are \$39,210. This estimate is based upon the operating expenses connected with the furnishing of telephone service at the Beardstown exchange of the Illinois Bell Telephone Company during the year ending December 31, 1920, after considering a reasonable annual expenditure for "repairs to central office equipment," to be \$2,594, which is the three-year average of the actual amounts expended during 1918, 1919 and 1920.

The total annual operating revenues for the year ending December 31, 1920, including that portion of toll revenue properly allocable to the local exchange, are \$43,846. The net annual income is, therefore, \$4,636 under the present schedule of rates, after giving consideration to the estimate of annual operating expenses, as indicated above.

During the eleven-months' period ending November 30, 1919, the Illinois Bell Telephone Company had in effect at

Beardstown, service connection, move, and change of name charges, as authorized by the Postmaster-General during the period of federal control of the wire lines. The revenue from the service connection, move, and change of name charges, during the said eleven-months' period was \$1,093. These charges were not in effect during the year 1920, but similar charges are in effect at the present time as permitted by General Order No. 67* of the Commission. Assuming that the annual revenues from the service connection charges will be at least equal to the revenues resulting from the application of these charges during the eleven-months' period of 1919, the net annual income under the present rates will be increased to \$5,729, which is a return of 6.4 per cent. upon a fair value of the property of \$90,000.

After careful consideration of the record the Commission is of the opinion, and finds:

1. That a reasonable value of the property as of December 31, 1919, used and useful in furnishing telephone service in Beardstown, county of Cass, and vicinity, including materials and supplies, working capital, development cost and every element of value, tangible and intangible, as of December 31, 1920, is \$90,000.

2. That a reasonable annual allowance as an item of operating expenses to provide a reserve against depreciation is \$5,316, plus 6 per cent. of the cost of all annual additions that may be made to the plant of the Illinois Bell Telephone Company at Beardstown, on and after December 31, 1919.

3. That the present annual operating expenses, including the allowance fixed by the Commission for depreciation, are \$39,210 and the total annual operating revenues under the present schedule of rates, including an estimated annual revenue from service connection charges of \$1,093, are \$44,939, thus resulting in a net annual income of \$5,729, which is a return of 6.4 per cent. upon a fair value of the property of \$90,000.

* See Commission Leaflet No. 109, p. 1246.

4. That the rates at present in effect are just and reasonable and that Rate Schedule I.P.U.C. 2, should therefore be permanently suspended, cancelled, and annulled.

It is, therefore, ordered by the Illinois Commerce Commission, That Rate Schedule I.P.U.C. 2, of the Illinois Bell Telephone Company applying to telephone service furnished in the city of Beardstown, county of Cass, and vicinity, be, and the same is hereby, permanently suspended, cancelled, and annulled.

By order of the Commission at Springfield, Illinois, this thirty-first day of October, 1921.

In re APPLICATION OF THE ALEXANDER COUNTY TELEPHONE COMPANY FOR CONSENT TO, AND APPROVAL OF, THE PURCHASE OF THE PROPERTY OF THE THEBES AND CAIRO TELEPHONE COMPANY; FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY TO OPERATE THE SAME, AND FOR AUTHORITY TO ISSUE COMMON CAPITAL STOCK.

Case No. 11332.

Decided November 9, 1921.

Sale and Purchase of Property Authorized — Certificate of Convenience and Necessity Granted — Issue and Sale of Stock Authorized.

OPINION AND ORDER.

On January 24, 1921, application was filed by the Alexander County Telephone Company, a corporation, asking for consent to, and approval of, the purchase by the Alexander County Telephone Company and sale by the Thebes and Cairo Telephone Company, of the telephone property owned by the Thebes and Cairo Telephone Company and located in the county of Alexander, as more fully described in the bill of sale attached to and made a part of the application. On July 7, 1921, the Alexander County Telephone Company filed application for the issuance of a certificate of convenience and necessity covering the operation of tele-

phone system which the company proposed to purchase of the Thebes and Cairo Telephone Company, and also for the approval of the Commission to the issuance by the Alexander County Telephone Company of its common capital stock in the aggregate amount of \$5,000.

The matter came on for hearing before the Commission on April 1, 1921, and on June 7, 1921, at which time the Alexander County Telephone Company was represented by *Mr. W. S. Dewey*, attorney. No one appeared objecting.

The evidence shows that the property which the Alexander County Telephone Company proposes to purchase includes all of the property formerly operated by the Thebes and Cairo Telephone Company. No detailed inventory is of record but from the extent and character of the property as shown by the record, it appears that the property to be transferred is fully worth the purchase price agreed upon of \$3,500.

The record shows that the Alexander County Telephone Company was organized and incorporated for the purpose of conducting a public utility, that it has entered into contract for the purchase of the property of the Thebes and Cairo Telephone Company, the Diswood Independent Telephone Company, and the Unity and Olive Branch Telephone Line, and that it is the intention to combine the aforesaid properties into one operating unit. An order has recently been entered by the Commission in Docket Case No. 11331* authorizing the petitioner herein to purchase the property of the Diswood Independent Telephone Company and a similar order has been entered in Docket Case No. 11333 authorizing the purchase of the Unity and Olive Branch Telephone Line. The actual purchase price authorized to be paid for the combined properties is \$4,500. The record shows that additions and betterments have been made to the property to the extent of \$1,000, so that the present investment in plant and equipment is \$5,500. The Alexander County Telephone Company asks the consent and

* See *infra*, p. 290.

approval of the Commission herein to the issuance of its common capital stock in the aggregate amount of \$5,000, the proceeds of the sale of which are to be used for the purpose of acquiring and improving the property hereinabove referred to. From the evidence of record the Commission is of the opinion that the value of the property involved is at least equal to the amount of the capital stock which the petitioner proposes to issue.

After careful consideration of the record, the Commission is of the opinion, and finds:

1. That the Alexander County Telephone Company and the Thebes and Cairo Telephone Company are public utilities within the meaning of Section 10, Article 1, of an Act Concerning Public Utilities, now in effect in Illinois.

2. That the purchase by the Alexander County Telephone Company and the sale by the Thebes and Cairo Telephone Company, of the telephone property belonging to the Thebes and Cairo Telephone Company and located in the county of Alexander, for the purchase price agreed upon of \$3,500 should be approved.

3. That the application of the Alexander County Telephone Company for the issuance of a certificate of convenience and necessity authorizing it to operate the telephone system acquired by purchase herein will, if granted, promote the public convenience and is necessary thereto and should be approved.

4. That the issuance by the Alexander County Telephone Company of \$5,000, par value, of its common capital stock will involve a capitalization of facilities to be acquired not in excess of their present value and should be approved.

It is, therefore, ordered by the Illinois Commerce Commission as follows:

Section 1. That the proposed purchase of the telephone property of the Thebes and Cairo Telephone Company located in the county of Alexander, as more fully described in the agreement entered into by and between the Alexander County Telephone Company and the Thebes and Cairo Telephone Company on December 27, 1920, by the Alex-

ander County Telephone Company, a corporation, be, and the same is hereby, approved under the following conditions and not otherwise, to-wit:

(a) That the Thebes and Cairo Telephone Company shall deliver the property described in the application and the bill of sale herein to the Alexander County Telephone Company for the consideration agreed upon by and between the parties herein, free of all encumbrances;

(b) That the transfer of the property involved shall be consummated by the execution and delivery of good and sufficient deed or instrument of conveyance, copy of which, duly certified, shall be filed with the Commission within ten days after the transfer of the property, and that the purchase and sale shall not be complete until certified copies of such deed or instrument of conveyance shall have been filed with the Commission;

(c) That the complete transfer of the property as approved herein shall be effective within twenty days from the date of this order and that the purchaser, the Alexander County Telephone Company, shall make a verified report of same to this Commission;

(d) That the Thebes and Cairo Telephone Company shall turn over all books of accounts and records relating to the property herein authorized to be transferred to the Alexander County Telephone Company, taking a detailed receipt therefor, and shall furnish the Commission with a certified copy of said receipt within ten days after such transfer.

Section 2. That the Alexander County Telephone Company shall make a report to the Commission of the operation of the telephone company to be transferred from the date of the last annual report to the Commission to the date on which the property is transferred.

Section 3. That no local rate, toll rate, toll contract, or charge for toll service, now in effect in the operation of the Thebes and Cairo Telephone Company shall be changed or modified without the specific approval of the Commission.

Section 4. That the Alexander County Telephone Company shall within ten days from the date of the transfer of the property file a schedule of all toll and local rates now in effect in the system acquired by it under contract of purchase and sale approved herein, in conformity with Section 34 of an Act Concerning Public Utilities, now in effect in Illinois, and with General Order No. 28,* as amended, by the Illinois Commerce Commission.

Section 5. That the estimated value of the property involved represented by the purchase price authorized herein shall not be considered as conclusive evidence of the value of the property should that question be hereafter presented to the Commission in a rate proceeding.

Section 6. That a certificate of convenience and necessity covering the maintenance and operation of the telephone system acquired by purchase herein be, and the same is hereby, granted to the Alexander County Telephone Company in accordance with Section 55 of an Act Concerning Public Utilities, now in effect in Illinois, and that the said certificate of convenience and necessity be issued under seal of this Commission and authenticated by its secretary.

Section 7. That the Alexander County Telephone Company, a corporation, be, and the same is hereby, authorized to issue its common capital stock in the aggregate amount of \$5,000, and that the proceeds of the sale of such issue of stock shall be applied to the purchase price of the property as authorized herein and to the rehabilitation of said property, and not otherwise.

Section 8. That the Alexander County Telephone Company, a corporation, shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds, sale and disposal of the said capital stock herein authorized to be issued, and at the end of every thirty days from the date hereof said company shall make a verified report to the Commission, stating the sale of the capital stock, the terms and conditions of the sale, the

* See Commission Leaflet No. 54, p. 21.

money realized therefrom, and the use and application of such money. The said accounts shall be open to audit and may be audited from time to time by accountants and examiners designated for the purpose by the Commission.

Section 9. That the Alexander County Telephone Company, a corporation, before the delivery of any certificate of stock herein authorized to be issued shall cause to be printed, stamped or engraved on the face of each of the said certificates for the purpose of proper and easy identification of same, the following:

ILLINOIS COMMERCE COMMISSION,
Authorization No. 1254,
November, 1921.

By order of the Commission, at Springfield, Illinois, this ninth day of November, 1921.*

In re PROPOSED INCREASE IN RATES FOR SERVICE OF THE
WATSEKA TELEPHONE COMPANY.

Case No. 11544.

. Decided November 9, 1921.

**Value Determined—Amount for Reserve for Depreciation Reduced
until Further Order—Increase in Rates Denied.**

OPINION AND ORDER.†

On March 28, 1921, the Watseka Telephone Company filed with the Public Utilities Commission Rate Schedule I. P. U. C. 2 wherein it was proposed to increase the rates for telephone service furnished in Watseka, county of Iroquois, and vicinity. A hearing in the matter being

* On the same day, a similar order was granted to the *Alexander County Telephone Company* for a certificate of convenience and necessity and to purchase property of the Diswood Independent Telephone Company located in Alexander County (Case No. 11331).

† A rehearing of the above entitled case has been applied for.

deemed necessary, the Public Utilities Commission entered an order suspending the proposed increased rates until August 26, 1921, and they were subsequently further suspended by this Commission pending a complete investigation. The present and proposed rates for the principal classes of service furnished are as follows:

	<i>Annual Rates</i>	
	<i>Present</i>	<i>Proposed</i>
Individual line, business stations.....	\$36 00	\$42 00
Two-party line, business stations.....	30 00	36 00
Individual line, residence stations.....	24 00	30 00
Two-party line, residence stations.....	18 00	24 00
Four-party line, residence stations.....	.....	21 00
Rural party line, business stations.....	27 00	27 00
Rural party line, residence stations.....	18 00	21 00
Extension stations, business	12 00	15 00
Extension stations, residence	6 00	7 20

All interested parties having been notified, the matter came on for hearing before the Commission on April 19, 1921, whereat the Watseka Telephone Company was represented by its attorney *Ben B. Boynton* and no one appeared objecting. At this hearing the Watseka Telephone Company submitted evidence relative to the value of the property, a statement of operating income and expenses for the year ending December 31, 1920, a statement of classification and distribution of subscribers' stations as of January 31, 1921, a statement of annual expenses resulting from wage increases made between January 1, 1920, and December 31, 1920, but not included in the 1920 operating expenses, and proof of publication of notice of intention to apply for authority to increase rates.

The record shows that on January 31, 1921, service was being furnished to 902 stations, distributed and classified as follows:

	<i>Number of Stations</i>	<i>Annual Rates</i>	<i>Annual Income</i>
Individual line, business stations.....	72	\$36 00	\$2,592 00
Two-party line, business stations.....	76	30 00	2,280 00
Business extension stations	22	12 00	264 00
Individual line, residence stations.....	72	24 00	1,728 00
Two-party line, residence stations.....	411	18 00	7,398 00
Residence extension stations	24	6 00	144 00
Rural party line, business stations.....	5	27 00	135 00
Rural party line, residence stations.....	215	18 00	3,870 00
Pay stations	5	.....	.....
TOTAL	902		\$18,411 00

The plant is of the magneto type with both metallic and grounded line circuits. The Watseka Telephone Company did not submit an inventory and appraisal of the property, but based its evidence as to the value of the property on the finding of value of the Public Utilities Commission in Case No. 9321,* entered May 18, 1920. In this order the Commission found the fair value of the physical property of the Watseka Telephone Company as of January 1, 1920, for rate-making purposes, to be \$46,500. The Watseka Telephone Company submitted a statement showing the net additions to plant from January 1, 1920, to December 31, 1920, to be \$2,871. Therefore the rate-making value of the property as of December 31, 1920, appears to be \$49,371.

In the order entered in Docket Case No. 9321, the Public Utilities Commission found the annual depreciation occurring in the physical portion of the plant as of January 1, 1920, to be \$3,720 and ordered that this amount be set aside annually, plus 6 per cent. of the cost of all annual additions made to the plant subsequent to January 1, 1920. The annual reports of the Watseka Telephone Company which are filed with this Commission as required by law, show that on December 31, 1919, the company had a depreciation reserve of \$31,424.99, and that during the year 1920

* See Commission Leaflet No. 104, p. 1010.

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the increase in the reserve, which is the difference between the amount set aside and the amount expended, was \$3,226.74, making the depreciation reserve \$34,651.73, as of January 1, 1921. The annual report for the year ending December 31, 1920, shows that \$17,000 of the funds belonging to the reserve have been invested in interest bearing bonds, and that during the year 1920, interest to the amount of \$734.72 from this source is shown on the annual report under Account No. 302 — Miscellaneous Income. In Exhibit "2, C," placed in evidence by the company at the hearing in this cause which exhibit shows operative revenues and expenses, the interest item above referred to does not appear.

In passing on the application of the Litchfield Telephone Company for increases in rates for telephone service at Litchfield, Docket Case No. 11041,* the Commission held that the depreciation reserve was considerably in excess of the amount necessary to protect the integrity of the investment in plant, and in that case ordered the company to cease setting aside any further contributions to the reserve until the same had been reduced to the proper amount. In the case at hand it appears that the reserve is considerably greater than would ordinarily be required, and it therefore appears that the annual contributions to the reserve may for some time be considerably reduced and the integrity of the investment still remain fully protected.

The company's evidence indicates that the total annual operating expenses of the Watseka Telephone Company for the year 1920, including taxes, uncollectable revenues, and deductions from gross income but without including any amount to provide against depreciation, are \$19,849. The record also shows an item of \$892 which represents the increase in annual operating expense due to salary increases, not reflected in the 1920 operating statement. The record contains no detailed evidence as to when the said increases in salary were made effective, and the Com-

* See Commission Leaflet No. 117, p. 359.

mission is therefore unable to determine the accuracy of this estimate. Furthermore, the evidence does not show that the increases referred to were effective at the time of the hearing, and whether or not they would remain so in the future. It appears, therefore, that the annual operating expenses connected with furnishing telephone service by the Watseka Telephone Company, without considering depreciation, is \$19,849.

The annual operating revenues, as determined by applying the present rates to the classification and distribution of subscribers' stations as of January 31, 1921, and including toll and miscellaneous revenues during the year 1920, and also including miscellaneous income of \$735, consisting of interest on investment are \$24,529. The operating result, therefore, under the present schedule of rates is an annual income available for depreciation and return of \$4,680.

Assuming 6.5 per cent. to be a reasonable return upon the fair value of the property, the annual amount necessary to provide this return would be \$3,210. On this assumption the annual amount available for the depreciation reserve under the present rates is \$1,470, which is considered a reasonable amount, in view of the present balance in depreciation fund.

After careful consideration of the record the Commission is of the opinion, and finds:

1. That the rate-making value of the property used and useful in furnishing telephone service in Watseka, county of Iroquois, and vicinity, including materials and supplies, working capital and all other elements of value, tangible and intangible, as of December 31, 1920, is \$49,371.

2. That the annual operating expenses, including taxes, uncollectable revenue and deductions from gross income but without consideration to an allowance for depreciation reserve, are \$19,849 and the total annual operating revenue under the present schedule of rates, including toll commissions, miscellaneous revenues, and interest on securities held in the depreciation reserve, is \$24,529, thus resulting

in an annual income available for depreciation and return upon investment of \$4,680.

3. That the depreciation reserve account of the Watseka Telephone Company as of January 1, 1921, is \$34,651.73, which is excessive when consideration is given to the extent and value of the depreciable property of the Watseka Telephone Company.

4. That a fair annual allowance as an item of operating expense to provide a reserve against depreciation until further order of this Commission is \$1,470.

5. That after giving consideration to an annual allowance of \$1,470 to provide a reserve against depreciation, the net annual income under the present schedule of rates is approximately \$3,210, which is a return of 6.5 per cent. upon the fair value of the property.

6. That the rate of return under the present schedule of rates is reasonable and the increased Rate Schedule I. P. U. C. No. 2 of the Watseka Telephone Company should, therefore, be permanently suspended, cancelled and annulled.

7. That the present rates of the Watseka Telephone Company for telephone service in Watseka, Illinois, stated in Rate Schedule I. P. U. C. No. 1, are just and reasonable rates; that the rates proposed in Rate Schedule I. P. U. C. No. 2 of said company are unjust, unreasonable and excessive insofar as they exceed the rates set forth in Rate Schedule I. P. U. C. No. 2, and that said Schedule No. 2 should be permanently suspended, cancelled and annulled.

It is, therefore, ordered, That the rates shown in Rate Schedule I. P. U. C. No. 1 of the Watseka Telephone Company covering telephone service at Watseka, Illinois, now in force and effect be, and the same are hereby, established as the rates to be charged by said company for said service, and that rates proposed in Rate Schedule I. P. U. C. No. 2, of the Watseka Telephone Company, applying to telephone service furnished in the city of Watseka,

county of Iroquois, and vicinity, be, and the same is hereby, permanently suspended, cancelled, and annulled.

By order of the Commission at Springfield, Illinois, this ninth day of November, 1921.*

MACOMB TELEPHONE COMPANY *v.* MANN TELEPHONE
COMPANY.

Case No. 11307.

Decided November 16, 1921.

**Request by One Company that Commission Compel Another Company
to Put a Toll Charge in Effect Dismissed.**

OPINION AND ORDER.

Complaint filed herein by the Macomb Telephone Company states that the Macomb Telephone Company is a public utility operating a telephone exchange in Macomb, Illinois, and toll lines in McDonough County, State of Illinois; that the Mann Telephone Company which operates a telephone exchange in the city of Bushnell, county of McDonough, sends all toll messages from Bushnell to Macomb, over toll lines owned by the Mann Telephone Company, on a free basis; that the Macomb Telephone Company has for some time past charged, and is at this time charging a toll charge of 10 cents for each message from Macomb to Bushnell, Illinois, and that the free business from Bushnell to Macomb is so heavy that the Macomb Telephone Company is compelled to employ extra operators to handle the free business, which increases the operating expense of the Macomb Telephone Company and is a discrimination against the subscribers of the Macomb Telephone

* On October 31, 1921, suspension orders were entered in the following cases: *Illinois Bell Telephone Company* at Sterling, Rock Falls, Peoria, Averyville, Bartonville, East Peoria, Peoria Heights, Momence, Alton, Wood River and Edwardsville (Nos. 10422, 10426, 10453, 10959 and 10960), and *Washburn Telephone Company* (No. 11189).

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Company. Therefore, the Macomb Telephone Company prays that the Commission compel the Mann Telephone Company to place in effect a toll charge of 10 cents per message on all messages over the lines of the Mann Telephone Company from Bushnell to Macomb, Illinois.

Answer to the complaint was filed by the Mann Telephone Company and the matter came on for hearing before the Commission on March 18, 1921. The Macomb Telephone Company was represented by *E. S. Slusher*, manager, and the Mann Telephone Company was represented by *N. E. Mann*, owner. Copy of an ordinance approved by the city council of the city of Bushnell on August 15, 1913, covering the installation and operation of a telephone plant in Bushnell was submitted, and subsequent to the hearing and at the direction of the examiner the Macomb Telephone Company submitted an exhibit showing the number of free messages from Bushnell to Macomb for a period from March 1, 1921, to March 9, 1921, and also a statement showing the paid messages from Macomb to Bushnell during the same period of time.

From the record it appears that the toll circuits between Bushnell and Macomb are approximately 16 miles in length and are owned by the Mann Telephone Company to the city limits of Macomb. That portion of the lines from the city limits to the switchboard of the Macomb Telephone Company is owned by the Macomb Telephone Company. The Macomb Telephone Company message rate on calls from Macomb to Bushnell is 10 cents, and the Mann Telephone Company has a message rate of 10 cents per message applying to non-subscribers. The subscribers of the Mann Telephone Company are given free service on calls from Bushnell to Macomb. In addition to this free service furnished to the subscribers of the Mann Telephone Company, the subscribers of companies connecting with the Mann Telephone Company are able to secure free service through the exchange at Bushnell to Macomb, thus enabling some subscribers to secure free service into Macomb over lines of approximately 42 miles in length.

The peg count submitted by the Macomb Telephone Company shows that during the period from March 1, 1921, to March 9, 1921, inclusive, the number of paid messages from Macomb to Bushnell averaged 26, and during the same period the number of free messages from Bushnell to Macomb averaged 354 messages daily. The record shows that this excessive use of the free service from Bushnell to Macomb results in the overloading of the toll circuits with visiting messages to the exclusion of urgent business calls. However, it appears that the Illinois Bell Telephone Company has circuits from Bushnell to Macomb and it is possible to route paid messages over these circuits between the two points in case the toll circuits of the Mann Telephone Company are busy.

In the answer to the complaint the Mann Telephone Company submitted a statement that free service is being furnished from Bushnell to Macomb in compliance with the provisions of Section 8 of the franchise from the city of Bushnell granted August 15, 1913, under which the Mann Telephone Company is now operating.

The record herein indicates that whatever revenue may accrue from the establishing of a toll message charge on calls from Bushnell to Macomb will be retained by the Mann Telephone Company and will not result in any increase in revenues to the Macomb Telephone Company. Furthermore, the record does not show that the Macomb Telephone Company will be able to reduce its operating expenses by dispensing with any of its operating force as a result of the establishing of a toll message rate on calls from Bushnell to Macomb. There appears to be little doubt from the record in this cause that the Macomb Telephone Company is handling a large number of free incoming toll calls from Bushnell for which it is apparently receiving no remuneration, and it would appear that some agreement should be reached between the Macomb Telephone Company and the Mann Telephone Company whereby the petitioner will receive a just compensation for the labor it performs in handling the calls referred to. On failure to

reach such an agreement the parties may refer the matter to the Commission for decision under Illinois Commerce Commission Law. This Commission does not deem it proper to order the Mann Telephone Company to place in effect a toll charge for messages from Bushnell to Macomb inasmuch as no request has been made by the Mann Telephone Company that permission be granted to establish such rates. The Commission is, therefore, of the opinion, and finds, that the request of the Macomb Telephone Company that the Commission require the Mann Telephone Company to establish a toll message rate of 10 cents per call on messages from Bushnell to Macomb should be denied.

It is, therefore, ordered by the Illinois Commerce Commission, That the petition of the Macomb Telephone Company that the Illinois Commerce Commission compel the Mann Telephone Company to put a toll charge of 10 cents on all messages over the lines of the Mann Telephone Company from Bushnell to Macomb, Illinois, be, and the same is hereby, denied and that the complaint herein be dismissed.

By order of the Commission, at Springfield, Illinois, this sixteenth day of November, 1921.

In re PROPOSED INCREASE IN RATES FOR TOLL SERVICE OF THE
LA HARPE TELEPHONE COMPANY.

Case No. 11312.

Decided December 6, 1921.

Toll Rates Established.

OPINION AND ORDER.

On January 12, 1921, the La Harpe Telephone Company filed Rate Schedule I. P. U. C. 1, in which it is proposed to establish and to increase toll rates on telephone calls between the La Harpe exchange and certain other

exchanges located in Hancock County. A hearing in the matter being deemed necessary, the Commission entered an order on January 31, 1921, suspending the proposed rates until June 12, 1921, and subsequently resuspended the effective date pending complete investigation.

The present and proposed toll rates are as follows:

	<i>Rate Per Message</i>	
	<i>Present</i>	<i>Proposed</i>
From La Harpe to Burnside	Free	10 cents
From La Harpe to Dallas City	Free	10 cents
From La Harpe to Colusa	Free	10 cents
From La Harpe to Stronghurst	5 cents	10 cents

All interested parties having been duly notified, the matter came on for hearing before the Commission on March 18, 1921, at which hearing the La Harpe Telephone Company was represented by *Charles K. Todd*, manager, and no one appeared objecting. The La Harpe Telephone Company submitted an estimate of the annual operating revenues and expenses of the company, and proof of publication of notice of intention to apply for authority to increase the toll rates.

From the record it appears that the free service toll line between La Harpe and Dallas City has been rendered useless by reason of inductive interference from a paralleling high tension line, and service is now being furnished from La Harpe through Carthage to Dallas City at a charge of 10 cents per message. In order to restore direct service, the La Harpe Telephone Company will be required to make a considerable expenditure.

Toll service from La Harpe to Colusa is furnished through the Dallas City exchange and therefore at this time the rate is 10 cents per message. Toll service from La Harpe to Burnside is free at the present time, the service being over a wire owned jointly by the La Harpe Telephone Company and the Mississippi Valley Telephone Company and carried for a part of the distance on a pole line of the Illinois Bell Telephone Company. Burnside is approximately 15 miles from La Harpe. In reference to

toll charges on calls between La Harpe and Stronghurst, the record shows that on calls originating at either La Harpe or Stronghurst, the rate is 5 cents per message.

Testimony submitted by the petitioner indicates that the annual operating expenses of the La Harpe Telephone Company are approximately equal to the annual revenues, without considering either depreciation or return on investment. Furthermore, testimony shows that the annual revenues resulting from the establishing of the toll rates provided for in I. P. U. C. 1, of the La Harpe Telephone Company will amount to approximately \$50.00 per annum.

After careful consideration of the record the Commission is of the opinion, and finds, that by reason of the necessity of the La Harpe Telephone Company making a considerable expenditure in order to furnish a direct line for toll service between La Harpe and Dallas City, a toll rate of 10 cents per message on calls from La Harpe to Dallas City, La Harpe to Colusa, and La Harpe to Burnside, as provided in Rate Schedule I. P. U. C. 1, of the La Harpe Telephone Company should be established.

The Commission also finds that sufficient evidence has not been submitted by the La Harpe Telephone Company to justify the changing of the toll charge on calls from La Harpe to Stronghurst from 5 cents per message to 10 cents per message, and the proposed increase, as stated in Rate Schedule I. P. U. C. 1, of the La Harpe Telephone Company should be denied.

It is, therefore, ordered by the Illinois Commerce Commission as follows:

Section 1. That Rate Schedule I. P. U. C. 1, of the La Harpe Telephone Company, applying to toll service furnished at the La Harpe exchange, be, and the same is hereby, permanently suspended, cancelled and annulled.

Section 2. That the La Harpe Telephone Company be, and the same is hereby, permitted and authorized to file the following schedule of rates to be designated as I. P. U. C. 2, covering telephone toll service at La Harpe, county of Hancock, effective December 10, 1921, *provided* the said

schedule of rates is filed with the Commission within twenty days of the date of service of this order; or effective at any subsequent date, *provided* the said schedule of rates is filed with the Commission not less than ten days prior to the effective date of the schedule; and the said schedule of rates, when filed with the Commission, as specified herein, and posted or filed in the office of the public utility, as required by the Illinois Commerce Commission Act of Illinois, and Amended General Order No. 28,* adopted by the Commission, shall be the legal rates covering telephone toll service in the city of La Harpe, county of Hancock, and vicinity. The schedule of toll rates authorized herein shall be stated in words and figures as follows:

MODIFIED RATES.	<i>Rate Per Message</i>
Toll messages from La Harpe to Burnside	10 cents
Toll messages from La Harpe to Dallas City	10 cents
Toll messages from La Harpe to Colusa	10 cents
Toll messages from La Harpe to Stronghurst	5 cents

By order of the Commission, at Springfield, Illinois, this sixth day of December, 1921.

In re APPLICATION OF THE MISSISSIPPI VALLEY TELEPHONE^y
COMPANY FOR TOLL RATES BETWEEN CERTAIN EXCHANGES.

Case No. 11313.

Decided December 6, 1921.

Toll Rates between Certain Exchanges Established.

OPINION AND ORDER.

On January 12, 1921, the Mississippi Valley Telephone Company filed Rate Schedule I. P. U. C. 2, in which it is proposed to establish toll rates on telephone calls between certain exchanges owned by the petitioner. A hearing in

* See Commission Leaflet No. 104, p. 962.

the matter being deemed necessary the Commission entered an order on January 31, 1921, suspending the proposed rates until June 12, 1921, and subsequently resuspended the effective date pending complete investigation.

On May 11, 1921, at the request of the petitioner, the Commission entered an order dismissing a portion of the toll rates set forth in Rate Schedule I. P. U. C. 2, as filed and the remaining proposed rates are as follows:

	<i>Rate Per Message</i>
Nauvoo to Dallas City.....	10 cents
Dallas City to Nauvoo.....	10 cents
Dallas City to La Harpe.....	10 cents
Basco to Carthage.....	10 cents
Carthage to Basco.....	10 cents
Carthage to Burnside.....	5 cents
Carthage to Fountain Green.....	5 cents

All interested parties having been duly notified, the matter came on for hearing before the Commission on June 2, 1921, at which hearing the Mississippi Valley Telephone Company was represented by *O. F. Berry*, attorney, and no one appeared objecting. The Mississippi Valley Telephone Company submitted exhibits showing the relative location of the several cities and towns involved in the cause herein; the free exchange territory of Dallas City, of Nauvoo, and of Basco; and proof of publication of notice of intention to apply for authority to establish toll rates. The company also submitted copies of an agreement entered into by and between the Mississippi Valley Telephone Company and the Burnside Telephone Exchange and certain country telephone lines in the vicinity of Burnside, Illinois, providing for the establishing of a toll charge on calls from Burnside to Carthage, and asked the approval by the Commission of the contract.

It appears from the record that La Harpe is 14 miles to the east and south of Dallas City and toll service between the exchanges has been carried on over a grounded line. It is the intention of the telephone company to make this line

metallic in order to improve the toll service furnished. Nauvoo is 15 miles to the south and west of Dallas City and toll service is furnished over a metallic line between the exchanges. Should the toll rate be established on calls between Dallas City and Nauvoo and between Dallas City and La Harpe, it will still be possible for the subscribers connected to the Dallas City exchange to secure free service at the exchanges located at Lomax, Colusa and Adrian. The subscribers connected to the Nauvoo exchange will still be able to secure free service with the exchanges at Colusa, Adrian and Hamilton thereby having access to approximately 1,400 stations.

The record also shows that the Burnside and Carthage exchanges are separated by approximately 8 miles, the Fountain Green and Carthage exchanges are 12 miles apart, and the Carthage and Basco exchanges are separated 9 miles. A toll message rate of 5 cents per call is in effect on calls from Burnside to Carthage, and from Fountain Green to Carthage and the establishment of the toll message rate as provided in Rate Schedule I. P. U. C. 2, of the Mississippi Valley Telephone Company, will merely equalize the toll message rates between these exchanges.

Should the proposed message rate be established between Basco and Carthage the subscribers connected to the Basco exchange will still have free service with the exchanges at Bentley, Denver, West Point and Sutter and will be able to reach approximately 750 subscribers.

The record does not indicate the estimated revenues resulting from the application of the proposed toll message rates as stated in Rate Schedule I. P. U. C. 2, as amended, but does show that in some instances the establishing of a toll rate will result in eliminating certain visiting messages thereby giving opportunity for the prompt and efficient handling of important business calls. The record submitted also shows that in all instances the exchanges involved are located at a sufficient distance to eliminate any possibility of overlapping of exchange areas.

After careful consideration of the record, the Commission is of the opinion, and finds:

1. That the establishing of toll message rates between exchanges of the Mississippi Valley Telephone Company as stated in Rate Schedule I. P. U. C. 2, amended as ordered by the Commission on May 11, 1921, will result in improving the telephone toll service furnished by the Mississippi Valley Telephone Company, and should be approved.

2. That the terms of the agreement entered into by and between the Mississippi Valley Telephone Company and the Burnside Telephone Exchange are just and reasonable and the agreement should be approved.

It is, therefore, ordered by the Illinois Commerce Commission as follows:

Section 1. That Rate Schedule I. P. U. C. 2, of the Mississippi Valley Telephone Company providing for the establishing of certain toll message rates on calls between certain exchanges of the Mississippi Valley Telephone Company, be, and the same is hereby, permanently suspended, cancelled and annulled.

Section 2. That the Mississippi Valley Telephone Company be, and the same is hereby, authorized to place in effect the schedule of rates for toll service as shown below, which schedule when filed, shall be designated as I. P. U. C. 3, effective December 1, 1921, *provided* the said schedule of rates is filed with the Commission not less than ten days prior to the effective date of the schedule; and the said schedule of rates, when posted and filed in the office of the public utility, all as required by the Illinois Commerce Commission Act and amended General Order No. 28,* adopted by the Commission, shall be the legal rates covering toll messages handled between the exchanges of the Mississippi Valley Telephone Company. The toll rates shall be stated in words and figures as follows:

* See Commission Leaflet No. 104, p. 962.

	<i>Rate Per Message</i>
Nauvoo to Dallas City.....	10 cents
Dallas City to La Harpe.....	10 cents
Dallas City to Nauvoo.....	10 cents
Basco to Carthage.....	10 cents
Carthage to Basco.....	10 cents
Carthage to Burnside.....	5 cents
Carthage to Fountain Green.....	5 cents

Section 3. That the agreement entered into by and between the Mississippi Valley Telephone Company and the Burnside Telephone Exchange and certain country telephone lines in the vicinity of Burnside, Illinois, dated January 30, 1920, copy of which is made a part of the record herein, be, and the same is hereby, approved, subject to the right of the Commission to terminate same, when in its opinion public convenience or interest requires such termination.

By order of the Commission at Springfield, Illinois, this sixth day of December, 1921.

In re PROPOSED INCREASES IN RATES OF THE McNABB MUTUAL
TELEPHONE COMPANY.

Case No. 9004.

Decided December 7, 1921.

**Value Determined — Increase in Rates Authorized — Amount Ordered
Set Aside Annually for Reserve for Depreciation.**

OPINION AND ORDER.

On January 20, 1921, the McNabb Mutual Telephone Company filed with the Commission, Rate Schedule I. P. U. C. 3, in which it was proposed to increase the rates for telephone service furnished in McNabb, county of Putnam, and vicinity. A hearing in the matter being deemed necessary, the Commission entered an order on February 1, 1921, in which the effective date of the proposed schedule was

suspended until June 20, 1921, and subsequently further suspended the effective date pending complete investigation. The present and proposed schedules of rates are as follows:

	<i>Annual Rates</i>	
	<i>Present</i>	<i>Proposed</i>
Individual line stations.....	\$12 00	\$15 00
Two-party line stations.....	11 00	13 75
Multi-party line stations.....	10 00	12 50

All interested parties having been notified, the matter came on for hearing before the Commission on March 8, 1921. The McNabb Mutual Telephone Company was represented by *J. N. Wilson* and no one appeared objecting. The McNabb Mutual Telephone Company submitted statements showing the operating revenues and operating expenses for the year 1920, and proof of publication of notice of intention to apply for authority to increase rates. Subsequent to the hearing, the McNabb Mutual Telephone Company stipulated that should the engineering section of the Commission make an examination of the property and submit an appraisal of same it could become part of the record herein without cross-examination of the engineers who prepared the report.

The plant of the McNabb Mutual Telephone Company is of the magneto type with grounded line circuits. The company owns the poles, cross-arms, toll lines, and central office equipment, and the subscribers own and maintain the wire and instruments. An inventory and appraisal was prepared by the engineering section of the Commission and in accordance with the above-mentioned stipulation it became part of the record. The appraisal was prepared by using fair average normal prices for labor and material for the five-year period 1912 to 1916, inclusive, for that part of the plant in existence on May 1, 1919, and the actual cost of the net additions from May 1, 1919, to March 28, 1921. The cost new, less depreciation, of the property as of May 1, 1919, was estimated to be \$9,354, and the net additions to plant from May 1, 1919, to March 28, 1921, amount

to \$799, giving a cost of the physical property as of March 28, 1921, of \$10,153 by this method.

A public utility is required to replace the various units of its property as they reach the end of their useful period. The cost of such replacements is not a direct charge to operation, but to the depreciation account. Funds for this purpose are properly obtained by setting aside from earnings a sufficient sum each year to maintain the integrity of the investment. These annual contributions constitute the depreciation reserve. In its order* of June 30, 1919, the Public Utilities Commission directed the McNabb Mutual Telephone Company to provide a reserve against depreciation by setting aside annually the sum of \$769, plus 6 per cent. of the cost of all annual additions that may be made to the plant in the future. From a consideration of the character of the plant owned by the McNabb Mutual Telephone Company, it appears that the former order of the Commission in reference to the depreciation reserve is reasonable and on this basis the annual depreciation of the physical property as of March 28, 1921, is \$796.

The McNabb Mutual Telephone Company submitted an exhibit showing the operating expenses of the company for the year 1920 to be \$2,875.44. Analysis of the exhibit submitted shows that the toll commissions paid to connecting companies are included in the operating expenses, and that several items which are properly chargeable to capital accounts are also erroneously included. After careful consideration of the record, it appears that the reasonable annual operating expenses of the McNabb Mutual Telephone Company, including depreciation and taxes, are \$2,635.

The annual operating revenues of the McNabb Mutual Telephone Company, based upon the stations connected as of March 28, 1921, and including toll commissions, are \$2,459. The classification and distribution of stations as of March 28, 1921, is as follows:

* See Commission Leaflet No. 93, p. 939.

<i>Classification</i>	<i>Number of Stations</i>	<i>Annual Rates</i>	<i>Annual Amount</i>
Individual line stations	29	\$12 00	\$348 00
Two-party line stations.....	40	11 00	440 00
Multi-party line stations.....	130	10 00	1,300 00
	199		\$2,088.00
Toll commissions			371.00
			\$2,459.00

The operating result, therefore, under the present rates is a net annual deficit of \$176.

Assuming that the present number of subscribers' stations will be maintained with the distribution and classification probable under the proposed schedule, a probable increase in operating revenue of \$522 will be realized. This increase in operating revenues will result in a net annual income of \$346, which is a return of 3.4 per cent. on \$10,153, the appraisal cost of the property, exclusive of any intangible items, as submitted by the engineering staff.

After careful consideration of the record, the Commission is of the opinion, and finds:

1. That a reasonable annual allowance as an item to meet accruing depreciation is \$796, plus 6 per cent. of the cost of all annual additions that may be made to the plant of the McNabb Mutual Telephone Company after March 28, 1921.

2. That the annual operating expenses, including the allowance fixed by the Commission for depreciation, and also including taxes, are \$2,635, and the annual operating revenues under the present schedule of rates are \$2,459, thus resulting in a net annual deficit of \$176.

3. That the present schedule of rates is unjust and unreasonable in that the rates now in effect are not sufficient to meet the operating expenses and provide a reasonable depreciation reserve.

4. That the proposed schedule of rates will increase the annual operating revenues by approximately \$522, thus

resulting in a net annual income of \$346, which is a return of 3.4 per cent. on the appraisal cost of the physical property which is the least value that could be reasonably assigned for rate-making purposes and that, therefore, the proposed rates are not excessive and should be authorized.

It is, therefore, ordered by the Illinois Commerce Commission as follows:

Section 1. That the suspension and resuspension orders affecting Rate Schedule I. P. U. C. 3, of the McNabb Mutual Telephone Company be, and the same are hereby, permanently vacated and set aside.

Section 2. That the McNabb Mutual Telephone Company be, and the same is hereby, permitted and authorized to place in effect the schedule of rates on file with the Commission designated as I. P. U. C. 3, covering telephone service in the village of McNabb, county of Putnam, and vicinity, effective December 1, 1921, *provided* written notice of the effective date of the said schedule of rates is filed with the Commission not later than ten days after the date of service of the order; or effective at any subsequent date, *provided* written notice of the effective date of the said schedule of rates is filed with the Commission not less than ten days prior thereto; and when notice of the effective date of the said schedule has been filed with the Commission, as specified herein, and posted in the office of the public utility, all as required by the Illinois Commerce Commission Act, and General Order No. 28* as amended, adopted by the Commission, the said schedule of rates shall be the legal rates covering telephone service in the village of McNabb, county of Putnam, and vicinity.

Section 3. That the McNabb Mutual Telephone Company set aside an annual allowance of \$796 to provide a reasonable depreciation reserve, plus 6 per cent. of the cost per annum of all annual additions that may be made to the plant from March 28, 1921.

* See Commission Leaflet No. 104, p. 962.

Section 4. That all items of expense having to do with the upkeep of the plant shall be treated in accordance with the uniform system of accounts for telephone companies now in effect by this Commission, particular attention being given to the proper apportionment between maintenance expense and expense due to depreciation of plant and equipment.

Section 5. That the Commission, having in mind that there may be a change in operating costs and conditions affecting the net revenues of this utility, hereby retains jurisdiction of the cause with respect to these matters, for the purpose of receiving further evidence thereon where such changes are apparent, and will enter such further orders as to the rates under consideration herein as may be deemed meet in the premises.

By order of the Commission at Springfield, Illinois, this seventh day of December, 1921.

INDIANA.

Public Service Commission.

FARMERS' FEDERATION OF STEUBEN COUNTY *v.* STEUBEN COUNTY TELEPHONE COMPANY.

No. 6108.

Decided December 12, 1921.

**Discontinuance of Service by Subscribers because of Dissatisfaction
with Rates Held a Damage to Subscribers as well as to Company
— Question of Value Immaterial as no Return was
being Earned on any Value — Rates on Indi-
vidual Business Telephones Reduced
— Petition Denied.**

The Farmers' Federation of Steuben County filed a petition in which it alleged that respondent's service was inadequate, and that the valuation placed upon respondent's property was too high, and requested the Commission to revise the rates for service charged by respondent.

The Commission considered it necessary to review a finding in a former case decided September 30, 1920,* in which respondent had been granted an increase in rates, including an increase for rural party line service from \$1.15 to \$1.50 per month, and in which the value of the company's property was fixed at \$225,000, this valuation being based upon the Commission's own inventory and appraisal. The rates fixed in said case were to become effective October 1, 1920, but during the month of October 1,000 or more of respondent's rural subscribers announced that if the company attempted to collect the increased rate they would discontinue service and have their telephones removed. On this account the company requested the Commission to postpone the effective date of this order until April 1, 1921, which was done.

On April 1, 1921, the rates authorized in said order became effective, and immediately subsequent thereto about 1,100 subscribers, principally on rural lines, ordered their service discontinued and their telephones removed, which was done.

The Commission found that there had been in this community probably the best telephone system in the State considering the kind and quality of construction, the distribution of stations and lines over the county, the free service throughout the county, the quality of the service and the economi-

* See Commission Leaflet No. 109, p. 1259.

cal and efficient management of the property; that a system constructed and operated as this one had been was a valuable asset to the county, which added directly to the value of all the property in the county and largely to the safety and convenience of the people.

The Commission further found that complainant's allegations as to inadequacy of service and as to the valuation being too high were not sustained by the evidence; that the service prior to April 1, 1921, had been excellent, but that since said date the service had not been so good on account of inability to call persons who were no longer subscribers; that petitioners had submitted no evidence as to the value of the property; that the evidence disclosed that the company's revenue was insufficient to pay its actual operating expenses; that the number of employees and the salaries and wages paid were at the minimum; that if there was any question of the value placed upon the property by the Commission it would be entirely immaterial in this case as no return was being earned by the company on any value whatsoever and practically none had been earned for the last six or seven years; that there was no prospect of respondent making money in the future even though its lost subscribers returned at the present rates; that it was possible that in the building of the rate structure a lesser rate should have been given to the users of individual business telephones at exchanges outside of Angola; that resolving this doubt against the company in the same manner that all questions arising in this case had been decided, the rate for individual business telephones at exchanges other than Angola should be reduced.

Held: That by the action of subscribers in discontinuing service because of dissatisfaction with the rates therefor, the property of respondent had been irreparably damaged, if not destroyed; that while the people who discontinued their service were acting entirely within their rights and were not to be criticized, yet if they had informed themselves of the facts instead of depending upon wild rumors of no foundation, very few of them would have allowed themselves to become a party to the destruction of the property and service, thus causing an actual damage to themselves amounting to more in dollars than the increase in rates would have amounted to in the next ten years;

That the petition of the Farmers' Federation of Steuben County herein filed, should be denied;

That respondent should file with the tariff department of the Commission, amendments to its schedule of rates now in effect, reducing the rate for individual business telephones at all of its exchanges, except at Angola, 50 cents per month, effective January 1, 1922.

OPINION AND ORDER.

On June 28, 1921, the above-entitled petition was filed, whereupon the cause was set for public hearing and heard

at the court house at Angola, Indiana, on September 19, 1921, by two members, an examiner and an accountant of the Commission.

The Commission caused its accounting department to make an investigation of the books and records of the telephone company, and the report of such investigation is in evidence.

A brief history of this controversy from the standpoint of the Commission should be recited. On July 21, 1920, the Steuben County Telephone Company filed a petition asking for an increase in rates. The rural party line rate had been for several years \$1.15 net per month and the company asked that such rate be increased to \$2.00 net per month. The hearing in Cause No. 5533* was held on September 21, 1920, at the court house at Angola, Indiana, at which time and place the company was represented by its attorneys and the Farmers' Federation by its attorneys. There were in attendance also a hundred or more of the rural subscribers of the company. At that hearing there was introduced in evidence a complete audit of the company's books made by the accounting department of the Commission, and an inventory and appraisal of the company's property made by the engineering department of the Commission.

As a result of the hearing and investigation by the Commission and its staff, an order* was issued on September 30, 1920, increasing the telephone rates of the petitioner, including an increase in the rural party line rate, to \$1.50 net per month. The Commission in said order also found the value of the company's property at that time for rate-making purposes to be \$225,000, this valuation being based upon the Commission's own inventory and appraisal, which was the only appraisal in evidence. There was no doubt then, and there is no doubt now, that the valuation so found was conservative.

* See Commission Leaflet No. 109, p. 1259.

The order also found that the petitioning company was entitled, under the law, to earn its operating expenses, including taxes and depreciation and a 7 per cent. return on the value of its property. At the hearing of the cause no evidence was offered showing, or tending to show, that the company's operating expenses were excessive, or that the property was uneconomically or inefficiently managed or operated. On the contrary, the direct and undisputed evidence was that the property was, and had been, efficiently and economically operated and managed, and that the salaries and expenses paid out by it were modest and reasonable.

Furthermore, the evidence at that hearing developed the fact that the service of the petitioning company was, and had been, good, and it was openly declared at the hearing by the attorneys for the farmers that they had no criticism of the service to offer, and that the service was, and had been, adequate, with the possible exception of the trunk line service between Angola and Fremont.

The order* of September 30, 1920, recited the evidence in considerable detail and gave the Commission's reasons in full for the decision therein made. The rates authorized in that order became effective October 1, 1920. During the month of October, 1920, a thousand or more of the rural subscribers announced that if the company attempted to collect the increased rate, they would have their telephones taken out. The company asked the Commission to postpone the effective date of its order until April 1, 1921, and that was done.

On April 1, 1921, the rates authorized by the Commission in its order* of September 30, 1920, became effective. In the meantime the Commission had caused an audit of the company's accounts to be made by its accounting department for the period ending February 28, 1921, which audit showed an actual operating deficit for each month of the period. That is to say, the company was not earn-

* See Commission Leaflet No. 109, p. 1259.

ing sufficient revenue to meet its actual operating expenses, consequently there was no justification whatever for the Commission to set aside its order giving the company some relief. Immediately subsequent to April 1, 1921, when the new rates became effective, about 1,100 subscribers, principally rural, ordered their service discontinued and their telephones removed, which was done.

The Commission's order* increasing the rates was issued September 30, 1920. The statute provides for a period of sixty days after the final order of the Commission during which time an appeal to the courts may be taken, or an application for rehearing filed with the Commission. If a rehearing is asked for and granted, thirty days is given after the final order of the Commission on rehearing for either party to file an appeal to the courts. The Commission invites applications for rehearing, when either party to a case feels that the order is not sound. An appeal to the courts does not mean a proceeding in the federal or some other foreign court. It means a proceeding in the local court, wherein the matter is tried out before the local judge and the reasonableness and correctness of the Commission's order is decided upon. Such a proceeding is very simple and the expense is trifling.

The Commission's order* of September 30, 1920, seems to have been bitterly resented, yet it is a peculiar fact that no one had interest enough in the matters involved, or in the welfare of the community to test the reasonableness and correctness of the Commission's order in the local circuit court, or to ask the Commission for a rehearing, which would have been granted as a matter of course, or even to write a letter to the Commission. The Commission made every possible effort to arrive at the facts in the case. It sent its accountants to Angola three times. It sent its engineers there twice. Its agents were in the county on several occasions investigating the service and the condition of the property. Every opportunity was given for the hearing of anyone who wished to be heard, and those present at the first hearing were invited to

* See Commission Leaflet No. 109, p. 1259.

express themselves. All of the company's operations, down to the expenditure of each dollar, were disclosed, not once, but several times, for the benefit of anyone who was interested.

In spite of these things, some 1,100 of the original subscribers of the telephone company are still without telephone service, and at the hearing on September 19, 1921, no one appeared authorized to say that any considerable number of such subscribers would come back on the lines, even if the rates were reduced to \$1.15 per month.

There was in this community probably the best telephone system in the State of Indiana, considering the kind and quality of construction, the distribution of telephone stations and lines over the county, the free service throughout the county and to the county seat, the quality of the service, and the economical and efficient management of the property. A single telephone system serving a whole county with free telephone service to the county seat is a rarity. Such a system constructed and operated, as this one was, is a valuable asset to the county, which adds directly to the value of all the property in the county and which adds largely to the safety and convenience of the people.

This property has been irreparably damaged, if not destroyed. The people who discontinued their telephone service were acting entirely within their rights, and are not to be criticized, although if they had informed themselves of the facts, instead of depending upon wild rumors of no foundation, very few of them would have allowed themselves to become a party to the destruction of this property and service, which is an actual direct damage to them, amounting to more in dollars than the increase in the rates would amount to in the next ten years.

The hearing of the present petition of the Farmers' Federation was held at the court house at Angola on September 19, 1921, as above indicated. The petition alleges that the valuation placed upon the property by the Commission is too high, and that the service is, and has been inadequate. Neither allegation is sustained by the

evidence. The evidence does show that prior to April 1, 1921, the service was generally excellent, and that since April 1, 1921, the service has not been so good, on account of inability to get persons who are no longer subscribers. Petitioners submitted no evidence as to the value of the property, except the testimony of the company's officers to the effect that the property had been largely built up and extended from the earnings during the last twenty-five or thirty years. The fact that the property has been so built up, is admitted by the telephone company and was admitted at the former hearing and was commented on in the former order. A utility that over a long course of years pays no dividends whatever, and which during the whole period pays low salaries and wages to its officers and employees and which puts all its earnings back into the up-building and extension of the property for the betterment of the service and the convenience of the public, certainly is to be commended, rather than criticized for such a policy. During all these years, if the earnings were sufficient, the company might have paid dividends to its stockholders and made additions and extensions to its property from borrowed money. That is the way it is done nine cases out of ten, and such a policy is taken as a matter of course.

The evidence before the Commission at this time discloses that the company's revenue is insufficient to pay its actual necessary operating expenses. The number of employees and the salaries and wages paid are at the minimum. If there was any question about the value placed upon the property by the Commission, it would be entirely immaterial as no return is being earned by the company on any value, and practically none has been earned for the last six or seven years, and there is no prospect of its making money in the future even though its lost subscribers return at the present rates.

The following statement shows all of the company's pay roll as of August 1, 1921. The Commission knows of no telephone company of comparable size and character that

has as few employees, or which pays as low salaries and wages.

PAY ROLL AS OF AUGUST 31, 1921.

<i>General:</i>		<i>Per Month</i>	
Manager		\$208	00
Bookkeeper		125	00
Stenographer		45	00
Superintendent		140	00
Wire chief		125	00
<i>Angola:</i>			
Chief operator		65	00
Assistant chief operator.....		50	00
Night operator		40	00
		<i>Sunday</i>	
		<i>Per Hour</i>	<i>Per Hour</i>
Two operators, each.....	\$0	22	\$0 33
Two operators, each.....		21	31½
Four operators, each.....		20	30
One operator		19	28½
Two operators, each.....		18	27
Three operators, each.....		16	24
<i>Fremont:</i>		<i>Per Month</i>	
Manager		\$150	00
Chief operator		53	00
Four operators, each.....		40	00
<i>Pleasant Lake:</i>			
Chief operator		50	00
Three operators, each.....		18	per hour
<i>Orland:</i>			
Operator		85	00
<i>Hamilton:</i>			
Operator		70	00

NOTE: While only one operator is shown on the payroll at each of the Orland and Hamilton exchanges, three operators are required at each place, the extra help being paid out of above amounts. Operators work eight hours per day.

The following statement shows the company's income account for the first seven months of the year 1921 The details of each item are set out in the audit.

INCOME ACCOUNT.

JANUARY 1 TO JULY 31, 1921.

Operating Revenues:

Subscribers' station revenue.....	\$23,696 50
Message toll revenue.....	5,366 49
Advertising and directory revenue.....	13 00
Service connection charges.....	358 00
TOTAL OPERATING REVENUE.....	\$29,433 99

Operating Expenses:

Maintenance	\$10,489 93
Traffic	11,395 45
Commercial	668 36
General and miscellaneous.....	5,254 50
TOTAL	\$27,808 24
Taxes	1,984 25
TOTAL OPERATING EXPENSES.....	\$29,792 49

NET OPERATING REVENUE ***\$358 50**

Non-operating Revenue:

Rent revenue	\$130 00
Interest revenue	64 24
Miscellaneous non-operating revenue (discounts).....	6 55
TOTAL NON-OPERATING REVENUE.....	\$200 79

Gross income* **\$157 71**

Deductions from Gross Income:

Rent of telephone offices.....	\$375 00
Rent of conduits, poles, etc.....	6 54
Interest on bonds.....	1,737 50
TOTAL DEDUCTIONS	\$2,119 04

*Deficit.

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Net income, surplus for period*.....	\$2,276 75
Surplus close of previous period*.....	\$31,886 16
TOTAL*	\$34,162 91
Old account collected	55 42
SURPLUS AT CLOSE AS PER BALANCE SHEET*	\$34,107 49

Ratio of operating expenses to operating revenue, 101.22 per cent.

* Deficit.

The law requires the Commission to fix reasonable rates. The rates must be sufficient to pay the cost of furnishing the service, including a reasonable return on the value of the property. It is the purpose of the State, as defined by the law, to require public utilities to furnish good service and in return permit them to live. The Commission has no choice about the matter. No way has yet been discovered of furnishing telephone service, or any other commodity, at less than cost. There is no dispute or question about the facts in this case. This company has cut its operating costs to the bone, and yet has not enough revenue to meet its pay roll and material expenses.

Neither is there any doubt about the reasonableness of the schedule of rates now in effect as a whole. Any sort of an investigation would convince any fair minded person of the reasonableness of the rates. Certain witnesses at the hearing, speaking for themselves only, stated that they would again become subscribers if the rates were reduced to the former level. The Commission after a full and fair investigation and hearing decided that those rates were not sufficient, and nothing whatever has been presented to the Commission since showing or tending to show that an error was made. The petition herein, therefore, must be denied, with the possible exception of the rate authorized for individual business telephones at exchanges other than Angola. It is possible that in the building of the rate structure a lesser rate should have been given to the

users of individual business telephones at exchanges outside of Angola. Resolving the doubt against the company in the same manner that all questions arising in this case have been decided, the Commission will reduce the rate for individual business telephones at exchanges other than Angola.

It is ordered by the Public Service Commission of Indiana, That the petition of the Farmers' Federation of Steuben County herein be, and it is, denied.

It is ordered, That the Steuben County Telephone Company file with the tariff department of the Commission, effective January 1, 1922, amendments to its schedules of rates now in effect, reducing the rate for individual business telephones at all of its exchanges, except Angola, 50 cents per month, such reduction to apply to both the gross and net rates.

It is ordered, That on or before January 1, 1922, the Steuben County Telephone Company shall file with the tariff department of this Commission, and shall post and keep posted in its office in full view of the public during the entire period such schedule is in effect, a printed or typewritten copy of such schedule of rates, as required by Sections 41-47 of the Public Service Commission Act.

It is ordered, That within twenty days from the receipt of this order, the Steuben County Telephone Company shall pay to the Treasurer of State, through the secretary of this Commission, the sum of \$113.36, expenses incurred by the Commission in the investigation of this cause, as required by Section 74 of the Public Service Commission Act.

December 12, 1921.

In re PETITION OF PARKE COUNTY TELEPHONE COMPANY FOR
AUTHORITY TO INCREASE RATES.

No. 6272.

Decided December 12, 1921.

Utility Entitled to Earn on Property Value at Time of Inquiry — Tentative Value Adopted — Pre-war Price Levels Doubtful for Many Years — Proposed Rates Reasonable but Prohibitive under Present Conditions — Less than Reasonable Return from Authorized Increase in Rates.

Applicant, operating exchanges at Rockville, Rosedale, Mecca, Montezuma and West Union, alleging that it had not increased its rates for service during or since the war, petitioned for authority to place in effect a schedule of rates for each exchange as set out in its application.

Applicant submitted an appraisal of its property showing the cost of reproduction of the physical property in use at all exchanges to be \$166,379.76, and a present condition value of \$134,915.94, to which it added 20 per cent. for going value and \$2,000 for working capital, making a total present value of \$163,899.12.

The Commission's engineering department submitted a report, which showed the total cost of reproduction of all the physical property, to be \$117,346, and the present value to be \$97,184, nothing, however, being included in the estimate for going value or working capital.

The Commission found that the matter of valuation was not material for the reason that even the rates proposed would fail to yield a reasonable return on any minimum value that could reasonably be found; that the Commission in order to finally fix a value for the property, should have before it a complete valuation made by its own engineers, and would therefore use as a basis for computation a value of \$100,000.

The Commission stated that it was a matter about which there could be no dispute, that the value of public utilities as well as other kinds of property had greatly increased during the last five or six years, and that it was safe to say that the prices of material and labor required to construct a telephone plant and system would not for many years reach the low level of pre-war days.

The Commission further found that petitioner's present rates were insufficient by about \$100 per month to meet its actual operating expenses; that the operating expenses for one year, based on the actual experience for the first six months of 1921, would amount to \$26,098.64, and that the operating revenues, based on the compromise rates hereinafter authorized, would amount to \$31,591.90, leaving net operating revenues of \$5,493.26, to which should be added non-operating revenues of \$135.22, making a gross income of \$5,628.48, or a return of 7 per cent. on a valuation of \$80,407.

Held: That a public utility was entitled to earn a reasonable return on the value of its property used and useful in furnishing service to the public at the time the inquiry is made for the purpose of determining rates;

That petitioner was entitled to the amount of revenue that would be produced by the rates proposed in its petition, but that so large a percentage of increase considering present times and conditions would be too great a burden on the public, and make the proposed rates in many cases prohibitive;

That applicant should be authorized to place in effect the schedule of rates as provided for at its several exchanges and set forth in the order herein entered.

OPINION AND ORDER.

On October 8, 1921, the Parke County Telephone Company filed with the Commission the following petition:

1. That it is a corporation organized and doing business under the laws of the State of Indiana;

2. That its principal place of business is at Rockville, Indiana, and that it is a public utility within the meaning of the Shively-Spencer Utility Commission Act, and as such is the owner and operator of a telephone exchange property in the towns of Rockville, Rosedale, Montezuma, Mecca, and West Union and the rural territory adjacent thereto;

3. That since January 1, 1913, there has been in effect at each of the above-mentioned exchanges a certain schedule of rates; the principal rates for the exchange service being as follows:

PRESENT RATES.

	Rock- ville	Rose- dale	Mecca	Monte- suma	West Union
<i>Business, Unlimited:</i>					
Individual line	\$2 00	\$1 00	\$1 50	\$1 50	\$1 50
Extensions	50	50	50	50	50
<i>Residence, Unlimited:</i>					
Individual line	1 00	1 00	1 00	1 00	1 00
Extensions	50	50	50	50	50
<i>Rural, Unlimited:</i>					
Business	1 50	1 50	1 00	1 00	1 00
Residence	1 00	1 00	1 00	1 00	1 00

That the petitioner has not increased its rates for exchange service during or since the war, although such rates have at all times failed to produce sufficient revenue to pay expenses and a fair return;

4. That the income from operation under such schedule of rates during the past year was insufficient to pay operating expenses, and a fair return on the value of the property;

5. That application is hereby made for authority to increase the rates of said applicant and to put into effect the schedules of rates hereinafter set out and designated Proposed Rates, which petitioner believes will produce the necessary revenue.

PROPOSED RATES.

	<i>Rock- ville</i>	<i>Rose- dale</i>	<i>Mecca</i>	<i>Monte- suma</i>	<i>West Union</i>
<i>Business, Unlimited:</i>					
Individual line	\$3 25	\$3 00	\$3 00	\$3 00	\$3 00
Four-party line	2 75	2 50	2 50	2 50	2 50
Extensions	1 00	1 00	1 00	1 00	1 00
<i>Residence, Unlimited:</i>					
Individual line	2 25	2 00	2 00	2 00	2 00
Four-party line	1 75	1 50	1 50	1 50	1 50
Extensions	50	50	50	50	50
<i>Rural, Unlimited:</i>					
Business	2 25	2 00	2 00	2 00	2 00
Residence	1 75	1 50	1 50	1 50	1 50

6. Wherefore, the said Parke County Telephone Company prays that after due hearing and investigation the Public Service Commission make an order granting the application herein and establishing the proposed rates and charges, or granting such relief as it may find to be equitable in the premises.

An audit and investigation of petitioner's accounts and records was made by the accounting department of the Commission for the period ending June 30, 1921, the report of which is in evidence.

An estimate of the property of petitioner was made by the engineering department of the Commission, as of October 1, 1921, the report of which is in evidence. It shows the cost of reproduction and present value of the physical property at each exchange and shows the grand total of cost of reproduction of all of the physical property to be \$117,346 and its present value to be \$97,184. The cost of reproduction is intended to and does very nearly reflect the actual original cost of the items of property included in the inventory. Nothing is included in the estimate for going value or working cash, which are elements of value which,

under the law, petitioner is entitled to have included in the total valuation for rate-making purposes.

Petitioner submitted in evidence an appraisal of the property of the Parke County Telephone Company showing a cost of reproduction of the physical property of \$166,379.76 and a present condition, or depreciated value of the physical property of \$134,915.94. To the present value so found petitioner adds 20 per cent., or \$26,983.18 for going value and \$2,000 for working capital, making a total value of property of \$163,899.12.

Considerable evidence was submitted tending to show an original investment some twenty years ago of \$36,000 and showing, or tending to show, that whatever increase there may have been was from the earnings of the company. It appears that over a long course of twenty years, or more, practically no dividends have ever been paid and that such earnings as were available were invested in the plant by way of extensions, improvements, etc.

The fact, if it be a fact, that throughout the history of the company the owners have taken down no dividends and have permitted the earnings, which might otherwise have been paid to them in dividends, to go back into the property is a very commendable policy rather than one to be criticized. However, that may be, it appears that the property of the Parke County Telephone Company now used and useful represents an actual investment of, at least, \$115,000. The law is that a public utility is entitled to earn a reasonable return on the value of its property, at the time of inquiry, used and useful for the convenience of the public. It is a matter of common knowledge about which there is no dispute, that the value of public utilities, as well as all other kinds of property, has greatly increased during the last five or six years. It is equally safe to say that the level of prices of material and labor required to construct a telephone plant and system will not for many years reach the low level of pre-war days. In order finally to find and fix the value of this property the Commission should have before it a complete valuation of the property made by its own engineers. The estimate sub-

mitted in this case by the engineering department is believed to be conservative and less than 10 per cent. different from the result of a complete valuation. Furthermore, the evidence discloses that the matter of valuation is not material in this case for the reason that even the rates proposed in the petition would probably fail to yield a reasonable return on the minimum value that could reasonably be found. The Commission will, as a basis for making certain calculations hereinafter indicated, use a value of \$100,000, which is materially less than the original cost of the property and materially less than its cost of the property and materially less than its value at this time.

The petition shows the rates now in effect and the rates proposed by petitioner. Under the law and the evidence, the Commission believes that petitioner would be entitled to the amount of revenue to be raised by the rates proposed in the petition. Nevertheless, the Commission believes that so large a percentage of increase, considering the condition of the times, would be too great a burden on the public and that such rates in many cases would be prohibitive.

The schedules of rates prepared by the Commission hereinafter authorized are very much lower than the rates prayed for by petitioner. Such schedules have been constructed with due consideration to the various classes of service and are believed to be fair and reasonable to all subscribers and without discrimination against any. The schedules authorized will not yield to the petitioner a reasonable rate on the value of its property, nor will it yield a reasonable rate on a value of \$100,000.

The evidence shows that petitioner's present revenues are insufficient by about \$100 per month to meet its actual operating expenses. Neither this nor any other business can continue to operate and furnish service with a constant and growing deficit such as exists here. The evidence including the investigation of the Commission's accountants, indicates that the property is economically and efficiently operated. It does not appear from an examination of the pay roll that employees could be expected to work for less. No criticism was offered at the hearing concerning the character of the service.

The following statement shows petitioner's estimated revenues and expenses for a year. The exchange service revenue is the Commission's estimate of the amount that the rates hereinafter authorized will yield. The amount indicated is more likely to be over-estimated than under-estimated. The operating expenses are based on the actual expenses for the first six months of 1921. The depreciation is the usual 5 per cent. on a depreciable value of \$85,000. The statement does not take into account the deferred maintenance, a considerable amount of which, no doubt, exists and which necessarily will have to be taken care of out of the gross income. The statement referred to is as follows:

ESTIMATED YEAR BASED ON THE FIRST SIX MONTHS, 1921, USING NEW
COMPROMISE RATES WITH 50 PER CENT. OF LOSS OF STATIONS AS
SHOWN BY COMPANY'S DISTRIBUTION.

Operating Revenues:

Exchange service revenues.....	\$26,905 80
Toll service revenues.....	4,307 18
Miscellaneous operating revenues.....	378 92
TOTAL REVENUES	\$31,591 90

Operating Expenses:

Maintenance	\$5,479 22
Traffic	9,489 10
Commercial	3,101 28
General	2,001 50
Uncollectable revenues	60 00
Taxes	1,976 60
Depreciation	4,250 00
Rent deductions	740 94
TOTAL OPERATING EXPENSES.....	\$26,098 64

Net operating revenues.....	\$5,493 26
Non-operating revenues	135 22
GROSS INCOME	\$5,628 48

Above gross income would yield 7 per cent. on valuation. \$80,407 00

The Commission being sufficiently advised in the premises finds that petitioner's present rates do not yield sufficient revenue adequately to operate and maintain the property and service, and that such rates are therefore unjust and unreasonable and that an increase should be authorized.

It is, therefore, ordered by the Public Service Commission of Indiana, That the Parke County Telephone Company be, and it is, authorized and directed, effective January 1, 1922, to charge and collect the following schedule of rates at its exchanges at Rockville, Rosedale, Mecca, Montezuma and West Union:

BASED ON PRESENT NUMBER OF STATIONS.

<i>Class of Service</i>	<i>New Compromise Monthly Rates</i>
<i>Rockville:</i>	
Single line, business.....	\$3 00
Extension, business	1 00
Single line, residence.....	1 75
Extension, residence	50
Rural, residence	1 40
Rural, business	1 75
Four-party line, business.....	2 50
Four-party line, residence.....	1 25
<i>Rosedale:</i>	
Single line, business.....	2 50
Extension, business	1 00
Single line, residence.....	1 50
Rural line, residence.....	1 25
Rural, business	1 50
Four-party line, business.....	2 00
Four-party line, residence.....	1 25
Extension, residence	50
<i>Mecca:</i>	
Single line, business.....	2 50
Extension, business	1 00
Single line, residence.....	1 50
Rural line, residence.....	1 25
Rural, business	1 50
Four-party line, business.....	2 00
Four-party line, residence.....	1 25
Extension, residence	50

Montezuma:

Single line, business	\$2 50
Extension, business	1 00
Single line, residence.....	1 50
Rural line, residence.....	1 25
Extension, residence	50
Rural, business	1 50
Four-party line, business.....	2 00
Four-party line, residence.....	1 25

West Union:

Single line, business.....	2 50
Rural line, residence.....	1 25

It is further ordered, That within twenty days from the receipt of this order, petitioner shall pay to the Treasurer of State, through the secretary of this Commission, the sum of \$202.38, expenses incurred by the Commission in the investigation of this cause, as required by Section 74 of the Public Service Commission Act.

It is further ordered, That on or before January 1, 1922, petitioner shall file with the tariff department of this Commission, and shall post and keep posted in its office in full view of the public during the entire period such schedule is in effect, a printed or typewritten copy of such schedule of rates, as required by Sections 41-47 of the Public Service Commission Act.

December 12, 1921.

In re PETITION OF THE HOME TELEPHONE COMPANY OF
NOBLESVILLE FOR AUTHORITY TO ISSUE AND SELL PRE-
ferred STOCK.

No. 6385.

Decided December 20, 1921.

Issue of Stock Authorized.

ORDER.

On December 12, the Home Telephone Company of Noblesville, Indiana, filed its petition asking for authority to issue and sell at par \$30,000 of its 7 per cent. preferred

stock, such issue to be used for the purpose of refunding \$30,000 of its 5 per cent. bonds due in about three years.

Pursuant to notice a hearing was held in the rooms of the Commission on December 17, 1921.

The evidence shows that petitioner desires to issue preferred stock at this time as it believes it has a market for preferred stock and has no assurance what such market may be at the time its bonds become due.

Petitioner has no funded debt other than the aforementioned bond issue and the value of its property for rate-making purposes has been fixed by this Commission at \$68,500.

The present bond issue is callable at the option of the company and petitioner expects to retire said bonds dollar for dollar with its 7 per cent. preferred stock. The Commission being fully advised in the premises is of the opinion that this petition should be granted, and it will be so ordered.

It is, therefore, ordered by the Public Service Commission of Indiana, That the Home Telephone Company of Noblesville, Indiana, be, and it is, authorized to issue and sell at not less than par \$30,000 of its 7 per cent. cumulative preferred stock to be used for the purpose of refunding dollar for dollar \$30,000 of 5 per cent. bonds now outstanding against said company and for no other purpose.

It is further ordered, That petitioner shall file with the Commission a report setting out the amount of preferred stock sold and the amount of bonds retired every sixty days, commencing February 1, 1922, until such refunding is completed.

It is further ordered, That petitioner shall pay to the Treasurer of State, through the secretary of this Commission, the sum of \$45.00, the fee for the issuance of such securities as prescribed in Section 96 of the Public Service Commission Act.

December 20, 1921.*

* On December 22, 1921, an issue of stock was authorized *In re Mooreland Rural Telephone Company* (No. 6370).

In re APPLICATION OF THE AVILLA MUTUAL TELEPHONE COMPANY FOR APPROVAL OF THE SALE OF ITS PLANT TO AVILLA MUTUAL TELEPHONE CORPORATION.

No. 6358.

Decided December 21, 1921.

Sale of Property Authorized.

OPINION AND ORDER.

On November 21, 1921, the Avilla Mutual Telephone Company filed with the Commission its petition as follows:

" Comes now the Avilla Mutual Telephone Company of Avilla, Indiana, and petitions the Public Service Commission of Indiana for permission to sell its entire plant with all its assets and subject to its liabilities, to Avilla Mutual Telephone Corporation for \$10,000 of the capital stock of said Avilla Mutual Telephone Corporation, all as prayed in the petition therefor filed by said last-named company."

At the time this petition was filed the Avilla Mutual Telephone Corporation also filed its petition for authority to issue and sell, at par, \$15,000 of its common capital stock, for the purpose of acquiring the property of the Avilla Mutual Telephone Company and the improving and rebuilding of same. This petition was docketed as Cause No. 6359, and was approved on December 12, 1921.

On March 29, 1921, the Commission approved its supplemental order in Cause No. 5802 establishing a value of petitioner's property of \$23,000 for rate-making purposes. It, therefore, appears that the value of the property to be sold is fairly comparable to the proposed purchase price.

The Commission is in receipt of a letter from the town clerk of Avilla saying that the proposal of petitioner had been laid before the town trustees and that he had been instructed to advise the Commission that there was no objection on part of those officials to the proposed sale.

The Commission being fully advised in the premises is of the opinion, and finds, that the sale of the property of the Avilla Mutual Telephone Company to the Avilla Mutual

Telephone Corporation for the sum of \$10,000, purchaser to assume all liabilities of the selling company, should be approved, and it is so ordered.

It is, therefore, ordered by the Public Service Commission of Indiana, That the sale of all the property of the Avilla Mutual Telephone Company to the Avilla Mutual Telephone Corporation for the sum of \$10,000, purchaser assuming all liabilities of the selling company, be, and it is, approved.

December 21, 1921.*

In re PETITION OF THE ILLINOIS BELL TELEPHONE COMPANY
FOR CONTINUANCE OF PRESENT RATES FOR SERVICE.

Nos. 5564, 5565, 5566.

Decided December 22, 1921.

Present Rates Continued in Effect.

OPINION AND ORDER.

On December 2, 1921, the Illinois Bell Telephone Company filed its petition in the following words and figures to-wit:

"1. That it is a corporation duly incorporated, organized and existing as such, under and by virtue of the laws of the State of Illinois, with its general office and place of business in the city of Chicago, Illinois, that as such corporation it is engaged in the business and operation of a telephone utility as a public service corporation, licensed under and subject to the laws of the State of Indiana, and under and subject to the supervision of the Public Service Commission of said State;

* On December 12, 1921, the *Ingalls Telephone Company* was authorized to acquire the property and franchise of the *Fall Creek Telephone Company*, the consideration for the transfer being the agreement, and undertaking on the part of the Ingalls company, to place the lines acquired in good condition and repair, and give service to such stockholders and patrons of the Fall Creek company as might desire to receive the same (No. 6181).

2. That heretofore, to-wit: On March 29, 1921,* upon petition duly filed and after hearing held thereon, said Public Service Commission of Indiana entered an order fixing the schedule of rates and rules of service for the petitioner's telephone exchange at Whiting, Indiana; that afterwards, to-wit: on May 31, 1921,† by an order duly entered, said Public Service Commission modified its said order of March 29, 1921,* by directing that the rates and charges fixed in said order of March 29, 1921,* as modified by its order of April 30, 1921, for said exchange, should cease to be in effect at midnight, December 31, 1921;

3. That the schedule of rates now in force at said exchange under and by virtue of said order of March 29, 1921,* as modified by the Commission on April 30, 1921, and on May 31, 1921,† are fair, just and reasonable and moreover do not yield to your petitioner more than sufficient revenue to meet its just and necessary expenses of depreciation, taxes and operating expenses, and allow a fair return on the value of the property actually used and useful for the convenience of the public in and through said exchange; that petitioner's operating expenses per station have increased during the year 1921, as compared with the same period in the year 1920, and said increase of expense of operation has been greater in proportion than any increase in revenue; that if said schedule of rates is not continued in force in said exchange the property of your petitioner would be taken without due process of law to the irreparable damage of your petitioner.

Wherefore, your petitioner respectfully prays that the Commission inquire into said question and order the present rate schedule at said exchange continued from and after midnight of December 31, 1921, until the further order of the Commission, and prays for all other proper relief in the premises."

The rates of petitioner, Illinois Bell Telephone Company at Whiting, East Chicago and Gary, expire December 31, 1921, as recited in the petition.

On December 17, 1921, a motion in writing was filed by the city of Whiting in the matter of the above-entitled petition, wherein the city of Whiting asks that the rates, if continued, be not continued for a longer period than until July 1, 1922.

The city, also, asks that the Illinois Bell Telephone Company be required to file with the city clerk a monthly statement of its receipts and expenditures received from and chargeable to the Whiting exchange. The city also com-

* See Commission Leaflet No. 113, p. 933.

† See Commission Leaflet No. 117, p. 375.

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plaints about the quality and character of the plant and equipment furnished by the telephone company at the city of Whiting.

Immediately upon the filing of the petition herein the Commission directed its accounting department to make an audit of petitioner's accounts and records and that work is now proceeding and will not be concluded for several weeks.

The Commission is informed that it will be agreeable to the city governments of each of the cities concerned temporarily to continue the present rates in order that the newly appointed officials may have opportunity to make the necessary investigation in preparation for the hearing of the cases. It therefore seems proper and to the best interests of all parties that the present schedules of rates be continued for a temporary period of not to exceed six months during which time the investigation and preparation may be completed and a hearing and determination had without the necessity of haste. The request of the city of Whiting that petitioner file a monthly statement of its receipts and expenditures is reasonable, and the company will be ordered to file such a statement with the clerk of each of the municipalities concerned.

It is, therefore, ordered by the Public Service Commission of Indiana, That the Illinois Bell Telephone Company be, and it is, authorized and directed to continue in effect on and after December 31, 1921, until June 30, 1922, or until the further order of the Commission the schedules of rates authorized by the Commission in its order of March 29, 1921,* as modified by the order of the Commission of April 30, 1921.

It is ordered, That the Illinois Bell Telephone Company file with the Commission and with the city attorney of each of the municipalities concerned a monthly income statement showing its revenues and expenses in detail; the first statement to cover petitioner's operations for the month of January, 1922.

December 22, 1921.

* See Commission Leaflet No. 113, p. 933.

In re PETITION OF THE CITIZENS TELEPHONE COMPANY OF DUNKIRK AND THE EASTERN INDIANA TELEPHONE COMPANY FOR PURCHASE AND SALE OF PROPERTY AND PETITION OF EASTERN INDIANA TELEPHONE COMPANY FOR AUTHORITY TO ISSUE STOCK.

Nos. 6381 and 6382.

Decided December 22, 1921.

Sale and Purchase of Property Authorized — Issue of Stock Authorized.

OPINION AND ORDER.

On December 10, 1921, the Citizens Telephone Company of Dunkirk filed with the Commission a petition averring that it is an Indiana corporation, and as a telephone utility operates a system in the city of Dunkirk and adjacent territory, maintaining physical connection with the Eastern Indiana Telephone Company; that petitioner is now indebted to the Eastern Indiana Telephone Company for approximately \$9,000 for additions made by the Eastern Indiana Telephone Company to petitioner's plant; that the Eastern Indiana Telephone Company has offered to purchase all the plant and property of every description of petitioner, and to issue in payment therefor \$41,100 of the common capital stock of the purchaser, out of which, however, the Citizens Telephone Company must pay said indebtedness; that it will be for the mutual interest of both companies and their stockholders and the public that such sale and transfer be made;

That the authority of the stockholders has been obtained for such purchase and sale, and that petitioner prays the Commission to make an order concerning the disposal of the interest of non-consenting stockholders, as the Commission may find proper in the premises.

Filed with the petition was a copy of the proceedings of the stockholders' meeting of the Citizens Telephone Company on December 9, 1921, and likewise the proceedings of the directors of said company on the same date. In both minutes it was recited that out of the 800 shares of

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stock now outstanding, 796 were accounted for and favorable to the transfer and the remaining four are outstanding and of record in the name of J. B. Puckett, whose last known address was Marion, Indiana, and that his present location is unknown.

On December 10, 1921; there was likewise filed with the Commission a petition of the Eastern Indiana Telephone Company, averring that it is an Indiana corporation and is engaged in the telephone business in Winchester and other cities and towns adjacent thereto; that it is desirous of purchasing all of the property of the Citizens Telephone Company of Dunkirk; that petitioner already owns and operates telephone plants connected directly with said Dunkirk plant, and in the adjoining towns of Ridgeville and Redkey; that all of said Dunkirk property can be purchased for the sum of \$41,100 to be paid in the common stock of petitioner at par; that the total authorized capital stock of petitioner is \$400,000, of which \$258,900 is outstanding; that the Dunkirk company is indebted to petitioner in the sum of approximately \$9,000, and that by the terms of sale agreed upon between the officials of petitioner and those of the Citizens Telephone Company of Dunkirk, the indebtedness will be paid out of said stock so issued and delivered.

Wherefore, the Eastern Indiana Telephone Company asks the permission of the Commission to authorize the purchase of said property and the issue of its stock therefor.

After due notice, the matter was heard in the office of the Commission on December 16, 1921.

It appears that the stock of the Eastern Indiana Telephone Company and the Citizens Telephone Company of Dunkirk is held by the same persons; that there can be no possible injury to the interests of the public in such a consolidation; that the property to be acquired by the Eastern Indiana Telephone Company is well worth \$41,100; that this transaction does not make any change in the operation or status of the exchange at Dunkirk since it is now in-

directly owned and actually operated by the Eastern Indiana Telephone Company; that this is not a sale of the stock of the Citizens Telephone Company of Dunkirk but is a sale of the property of said company, and that the stock of the Eastern Indiana Telephone Company will be divided among the stockholders of the Citizens Telephone Company of Dunkirk in proportion to their respective holdings in the latter; that it will be necessary to find the value of the non-consenting stock owned by said Puckett, and that to said Puckett should be apportioned the proper amount of the stock of the Eastern Indiana Telephone Company, which should be held in trust for him for his election either to take such stock or the cash found to be the value of his stock in the Citizens Telephone Company of Dunkirk; that since the Citizens Telephone Company of Dunkirk, as a corporation, will be dissolved after having disposed of all of its assets, there is no necessity of considering any further the value of its stock, except that of Puckett as above stated, but only the value of its property, which the Commission finds is sufficient to authorize the Eastern Indiana Telephone Company to issue \$41,100 of its common stock in payment.

The Commission submitted to its accounting department the problem of calculating the value of the shares of the non-consenting stockholders. The following report was made:

"In compliance with your request I submit herewith the book value of the common stock of the Citizens Telephone Company of Dunkirk, Indiana, based on the balance sheet as of June 30, 1921, both on an undepreciated and a depreciated basis. Also on the basis of certain stipulated conditions of sale, without regard to the balance sheet, all as follows:

ON BASIS OF UNDEPRECIATED PROPERTY.

Fixed capital assets.....	\$53,060 62
Cash and deposits	494 99
Material and supplies.....	1,256 57
Employees' working fund	500 00
Accounts receivable	30 00

TOTAL ASSETS, UNDEPRECIATED..... \$55,342 18

In re PETITION OF THE CITIZENS TELEPHONE CO. 339

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Deduct:

Bills payable	\$8,222 59
Accounts payable	337 91
Accrued taxes	587 00
Accrued interest	424 00

LIABILITIES TO LIQUIDATE	\$9,571 50
--------------------------------	------------

TOTAL NET WORTH OF CAPITAL STOCK, UNDEPRECIATED.	\$45,770 08
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\$20,000 capital stock, per \$100.....	\$228 85
--	----------

800 shares, per each share.....	\$57 21
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ON BASIS OF DEPRECIATED PROPERTY.

Total assets as above.....	\$55,342 18
Less depreciation reserve accrued.....	13,734 33

TOTAL ASSETS, DEPRECIATED.....	\$41,607 85
Deduct liabilities	9,571 50

TOTAL NET WORTH OF CAPITAL STOCK, DEPRECIATED....	\$32,036 35
---	-------------

\$20,000 capital stock, per \$100.....	\$160 18
--	----------

800 shares, per each share.....	\$40 02
---------------------------------	---------

ON BASIS OF FOLLOWING TERMS OF SALE.

Assuming that the purchasing company pays \$41,100 for the physical property, and all other assets including cash, materials and supplies, etc., also assuming all liabilities of selling company except \$9,000 of notes payable to purchasing company which selling company must pay:

Amount to be received by selling company.....	\$41,100 00
Deduct notes payable to purchasing company.....	9,000 00

DIVISIBLE TOTAL TO STOCKHOLDERS.....	\$32,100 00
--------------------------------------	-------------

\$20,000 capital stock, \$100 per share.....	\$160 50
--	----------

800 shares, per each share.....	\$40 128 "
---------------------------------	------------

The Commission being fully advised on the basis of depreciated property will find the value of the shares of

the non-consenting stockholders of the Citizens Telephone Company of Dunkirk to be \$40.00 each.

It is, therefore, ordered by the Public Service Commission of Indiana, That the Citizens Telephone Company of Dunkirk be, and it is, authorized to sell, and the Eastern Indiana Telephone Company be, and it is, authorized to buy, all of the property of the former, for and in consideration of \$41,100, to be paid in the common capital stock of the Eastern Indiana Telephone Company of Dunkirk.

It is further ordered, That the Eastern Indiana Telephone Company be, and it is, authorized to issue and sell or exchange \$41,100 of its common capital stock for the purpose of purchasing all of the properties of the Citizens Telephone Company of Dunkirk.

It is further ordered, That the value of the stock of the Citizens Telephone Company of Dunkirk, which is owned by J. B. Puckett, a non-consenting stockholder, is \$40.00 per share, and the Eastern Indiana Telephone Company is ordered to hold the apportioned shares of its stock in trust for said Puckett or the amount above set out in cash, to be taken by Puckett at his option.

It is further ordered, That before issuing or selling any of such securities, the Eastern Indiana Telephone Company shall pay to the Treasurer of State, through the secretary of this Commission, the sum of \$61.65, the fee for the issuance of such securities prescribed in Section 96 of the Public Service Commission Act.

December 22, 1921.

In re PETITION OF THE LOGANSPORT HOME TELEPHONE COMPANY TO ACCEPT THE SURRENDER OF CERTAIN SECURITIES OUTSTANDING AND TO ISSUE CERTAIN SECURITIES.

No. 6387.

Decided December 22, 1921.

Acceptance of Stock for Treasury Purposes Authorized—Issue and Sale of Stock Authorized.

OPINION AND ORDER.

On December 16, 1921, the Logansport Home Telephone Company filed its petition in the above-entitled cause wherein it avers as follows:

"Comes now the Logansport Home Telephone Company of Logansport, Indiana, petitioner, and respectfully shows that it is operating a system of telephone plants in the city of Logansport and Cass County, Ind.

That the present book value of its properties, used and useful, in the operation of its plant, as shown by its books kept under the method prescribed by this Commission, is approximately \$415,000; that at the present time it has outstanding securities consisting of \$257,200 of first mortgage bonds and \$350,000 of common stock; that all of its common stock excepting 11 shares, nominally held by its directors, has been issued to and is the property of the Cass County Security and Investment Company; that it has no stock, either common or preferred, in its treasury for treasury purposes.

That the company's plant has been continually growing by reason of extensions made to its plant required to take care of the demand for telephone service in its territory; that it has been unable to issue new securities to take care of said increases for the reason that the amount of its outstanding bonds makes it impossible to issue further securities of that nature, and that there is no stock in the treasury which may be sold or issued for capital purposes.

That in the last few years the company has passed several dividends because of the necessity of investing earnings in plant extensions, and that in addition thereto the company has become indebted to banks for approximately \$20,000, which is carried as a current liability, and which money was used in extensions and increases in the physical property of the company; that it has become imperative that the petitioner make some provisions for procuring new capital for its future extensions, and that it make some immediate provision for the financing of its \$20,000 of current bank liability.

Petitioner further shows that having these facts in mind the Cass County Security and Investment Company, the owner of 3,489 shares of the capital stock of the petitioner, which is all of said stock except 11 shares, nominally held by the directors of the company, and each of which shares is of the par value of \$100, has proposed to this petitioner through a resolution of its board of directors, to deliver and surrender to this petitioner 2,177 shares of petitioner's capital stock, and to relinquish all title and ownership in said stock in favor of this petitioner; the said stock to be used as treasury stock and sold from time to time for the purpose of financing extensions and betterments to petitioner's plant, and for the purpose of refunding petitioner's bonded indebtedness from time to time; a copy of which said resolution, certified by the officers of said Cass County Security and Investment Company, is attached to this petition, marked Exhibit A and made a part hereof.

That your petitioner through its directors has accepted the proposition of the Cass County Security and Investment Company set out in said resolution by a resolution of petitioner's directors, a copy of which said resolution is attached to this petition, marked Exhibit B and made a part hereof; that said acceptance is conditioned upon the approval of the Commission, and upon the Commission granting authority to do the things required in said proposal.

That if the said proposal is accepted and approved by the Commission the petitioner will have outstanding securities as follows:

First mortgage bonds	\$257,200 00
Outstanding stock	132,300 00
Stock to be sold for the purpose of funding petitioner's \$20,000 current indebtedness for extensions.....	20,000 00
TOTAL SECURITIES	\$409,500 00

That said amount is less than the present book value of the company's property, and that with said securities outstanding the petitioner believes that it will be able from time to time to sell its common stock, with the permission of the Commission, for the purpose of financing extensions and betterments to its plant, and for the purpose of redeeming its bonds as required by its mortgage to the bondholders, and that the present necessity of looking to current earnings for betterments to its plant and the redemption of its bonds could be avoided.

Wherefore, petitioner prays that an order be issued by the Commission directing petitioner to accept for treasury purposes the 2,177 shares of its capital stock tendered it by the Cass County Security and Investment Company; and that it be directed to sell in the open market not to exceed \$20,000, par value, of said common stock at not less than 90 cents on the dollar net to petitioner for the purpose of paying its bank indebtedness

incurred for the building of extensions to its plant; and that it be directed to sell sufficient of its treasury stock from time to time for cash at not less than 90 per cent. of the par value thereof, to annually redeem and retire 2 per cent. of its outstanding bonds as required by the mortgage on its property; and for such other orders as the Commission may deem just and proper.

Respectfully submitted,
The Logansport Home Telephone Company,
By Walter J. Uhl,
Secretary.

Jones and Lairy
Rabb, Mahoney and Fansler,
Attorneys for Petitioner."

Attached to and made a part of the petition is a resolution of the Cass County Security and Investment Company, which company is the owner of 3,489 shares of the capital stock of the Logansport Home Telephone Company, said amount being all of the stock of the said telephone company except 11 shares which are held by the directors of said company.

The resolution confirms the averments of the petition as to the surrender by the Cass County Security and Investment Company to petitioner of the 2,177 shares of petitioner's capital stock for the purposes stated in the petition. Attached to and made a part of the petition as Exhibit B is a resolution of the Logansport Home Telephone Company, authorizing the officers of said company to proceed in the manner described in the petition.

It appears from the evidence that petitioner has expended from its treasury more than \$20,000 for additions and betterments to its property within the last five years, and that such money, so expended, has not been derived from the sale of any of petitioner's securities. The \$20,000 indebtedness is represented by petitioner's notes.

It appears, also, that petitioner's mortgage provides that a certain amount of its mortgage indebtedness shall be refunded each year, and petitioner desires to issue and sell its common stock for that purpose.

The Commission being sufficiently advised in the premises finds that the prayer of the petition should be granted.

It is, therefore, ordered by the Public Service Commission of Indiana, That the Logansport Home Telephone Company be, and it is, authorized to accept from the Cass County Security and Investment Company 2,177 shares of petitioner's capital stock and that such stock so delivered and accepted be held in the treasury of petitioner and reissued hereafter only by authority of the Commission.

It is ordered, That petitioner be, and it is, authorized to issue and sell at not less than 90 per cent. of par \$20,000, par value, of its common capital stock, the proceeds of such sale to be used to pay off the \$20,000 of indebtedness incurred within the last five years for additions and betterments now represented by petitioner's notes.

It is ordered, That petitioner be, and it is, authorized to issue and sell at not less than 90 per cent of par \$10,000, par value, of its common capital stock, the proceeds of such sale to be used for the purpose of refunding and retiring a like amount, par value, of its first mortgage bonds.

It is ordered, That petitioner pay to the Treasurer of State of Indiana, through the secretary of this Commission the sum of \$45.00 the fee prescribed by the law.

December 22, 1921.

KANSAS.

Public Utilities Commission.

In re APPLICATION OF THE NORTHERN KANSAS TELEPHONE
COMPANY FOR AUTHORITY TO INCREASE RATES AND TO
CHARGE FOR TOLL SERVICE.

Docket No. 3883.

Decided September 30, 1921.

Increase in Rates Authorized.

ORDER.

Now on this thirtieth day of September, 1921, this case comes on for final order by the Commission, and the Commission having examined the evidence herein and being fully advised in the premises, finds that the present schedule of rates in effect by the Northern Kansas Telephone Company for telephone service at Effingham, Kansas, is insufficient and inadequate to pay operating expenses of said company, and to enable the said company to set up a sufficient depreciation reserve and to pay a fair rate of return upon the value of the property used and useful in its telephone business at Effingham, Kansas.

The Commission further finds that the rates hereinafter provided for are just, reasonable and compensatory, will enable the said company to pay operating expenses, set up adequate depreciation reserve, and pay a fair and reasonable return on the value of the property used and useful in the telephone business at Effingham, Kansas.

It is, therefore, by the Commission ordered, That the Northern Kansas Telephone Company be, and it is hereby, permitted and authorized to file and put into effect, effective on and after October 1, 1921, a schedule of rates, providing charges for the various classes of service furnished

by it at and through its exchange located at Effingham, Kansas, as follows, to wit:

	<i>Per Month</i>
Business, individual line.....	\$2 50
Residence, individual line.....	1 50
Residence, rural, multi-party.....	1 25

All other rates of said company to remain as they are at present.

September 30, 1921.

MARYLAND.

Public Service Commission.

In re APPLICATION OF THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY OF BALTIMORE CITY FOR PERMISSION AND AUTHORITY TO FILE AND PUBLISH A SCHEDULE OF RATES TO BE EFFECTIVE UPON THE RETURN OF THE PETITIONER'S TELEPHONE SYSTEM TO IT BY THE UNITED STATES GOVERNMENT.

Case No. 1709—Order No. 6531.

Decided December 17, 1921.

Rates Authorized by Former Order Continued in Effect.

ORDER.

Whereas, this Commission by its Order No. 5731 * entered herein on August 18, 1920, authorized and directed rates and charges to be charged and collected by The Chesapeake and Potomac Telephone Company of Baltimore City for telephone service furnished by the said company in the State of Maryland on and after September 1, 1920, to and including December 31, 1921; and

Whereas, the said The Chesapeake and Potomac Telephone Company of Baltimore City has filed with the Commission a petition praying that the Commission continue in effect beyond December 31, 1921, the rates and charges so authorized and directed to be charged and collected by the said company by the aforesaid Order No. 5731,* and

Whereas, the petition having come on to be heard on December 16, 1921, after due notice, and it appearing from the testimony offered and the exhibits filed at the hearing had on that date that the net telephone revenues of The Chesapeake and Potomac Telephone Company of Balti-

* See Commission Leaflet No. 106, p. 204.

more City under the rates and charges aforesaid equated to a rate of return of 5.63 per cent. during the year ended August 31, 1921, and of 5.32 per cent. during the year ended October 31, 1921, upon the tentative average fair value of the property of The Chesapeake and Potomac Telephone Company of Baltimore City during the years ended on the respective dates, which said tentative average fair value is reached by taking as the base the fair value of the property of The Chesapeake and Potomac Telephone Company of Baltimore City heretofore established by the Commission as \$16,725,532 as of December 31, 1919, and adding thereto capital additions and deducting therefrom capital retirements; and

Whereas, it being the opinion and finding of the Commission after investigation and hearing that the aforesaid rates and charges should be continued in effect,

It is, therefore, ordered: (1) That the rates and charges authorized and directed by the Commission's Order No. 5731 * entered herein on August 18, 1920, to be charged and collected by The Chesapeake and Potomac Telephone Company of Baltimore City for telephone service furnished by the said company in the State of Maryland be, and they hereby are, continued in effect from midnight of December 31, 1921, until midnight of March 31, 1923, unless in the meantime this order shall be modified or abrogated, in whole or in part, by the Commission.

(2) That The Chesapeake and Potomac Telephone Company of Baltimore City shall furnish this Commission accurate and complete statements under oath, and in convenient form, setting forth the revenues, operating expenses, and other expenditures of the company during each month; such reports to be furnished so soon as may be reasonably practicable and convenient after the end of each calendar month during the period this order remains effective.

* See Commission Leaflet No. 106, p. 204.

(3) That a copy of this order be served upon said The Chesapeake and Potomac Telephone Company of Baltimore City, and that said company within ten days of the date of service of such copy shall notify the Commission in writing whether or not it will accept and abide by the same.

December 17, 1921.

MICHIGAN.

Public Utilities Commission.

In re APPLICATION OF THE MUTUAL TELEPHONE COMPANY
OF BRUCES CROSSING FOR A CERTIFICATE OF PUBLIC CON-
VENIENCE AND NECESSITY TO CONSTRUCT A TRUNK LINE
FROM BRUCES CROSSING TO AND CONNECTING WITH EWEN
TELEPHONE COMPANY'S SWITCHBOARD AT EWEN.

T-319.

Decided October 19, 1921.

**Certificate of Convenience and Necessity to Construct Trunk Line
Granted — Schedule of Rates Established.**

ORDER.

Application having been made by the Mutual Telephone Company of Bruces Crossing for a certificate of public convenience and necessity authorizing it to construct and maintain a telephone trunk line from Bruces Crossing to and connecting with the Ewen Telephone Company's switchboard at Ewen, Michigan, and the same having been brought on to be heard upon the applications filed, and upon the report of John J. Norman, chief telephone inspector, and the same having been duly considered; and it appearing that an order * was heretofore on October 6, 1920, issued by this Commission authorizing said Mutual Telephone Company of Bruces Crossing to organize and incorporate, and approving its articles of association, and granting to it a certificate of public convenience and necessity to operate a telephone exchange and to construct, maintain and operate telephone lines and facilities at Bruces Crossing, and vicinity, as will more fully appear by said order; and it further appearing that said Mutual Telephone Company of Bruces Crossing ought not to be

* See Commission Leaflet No. 108, p. 933.

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permitted to encroach upon the territory now occupied and served by the Ewen Telephone Company, and it further appearing that said Mutual Telephone Company of Bruces Crossing does not now maintain a telephone exchange, and that it desires trunk line connections with the exchange of the Ewen Telephone Company at Ewen, Michigan, and that the granting of said certificate is in the interest of public convenience and necessity, providing the same is granted in accordance with the terms and conditions of this order.

Therefore, it is hereby ordered, by the Michigan Public Utilities Commission,

(1) That the Mutual Telephone Company of Bruces Crossing be, and it is hereby, granted a certificate of public convenience and necessity authorizing it to construct, maintain and operate a telephone trunk line between Bruces Crossing and Ewen, Michigan; the same to extend along the highway in Stannard Township between sections 19 and 30, 20 and 29, 21 and 28; and in McMillan Township between sections 24 and 25, 23 and 26, said telephone trunk line to be used for messages from Bruces Crossing to Ewen only. No subscriber of either of said telephone companies is to be connected with said telephone trunk line or given local service therefrom.

(2) That the following scale of rates for telephone service be established and put in force. The Mutual Telephone Company of Bruces Crossing is to pay to the Ewen Telephone Company of Ewen for the privilege of having messages of all of its subscribers transmitted or switched by said Ewen Telephone Company, and any other subscribers that may be connected hereafter with any other line or lines of said Mutual Telephone Company of Bruces Crossing over said trunk line as follows:

	<i>Per Year</i>
From 1 to 20 parties	\$2 00
From 21 to 40 parties	1 00
From 41 to 60 parties	75
From 61 to 80 parties	50
From 81 to 100 parties	25

Said Mutual Telephone Company of Bruces Crossing shall have the right to charge and collect 10 cents from all non-subscribers desiring service from Bruces Crossing to Ewen over said telephone trunk line or other lines connected to its exchange that do not come under the schedule above mentioned, said Mutual Telephone Company to retain all of said tolls.

(3) The Ewen Telephone Company of Ewen, Michigan, shall charge and collect 10 cents each for any and all calls that originate at the Ewen Telephone Company's exchange at Ewen or at any telephone or telephones switched at such exchange other than those of the Mutual Telephone Company at Bruces Crossing, when said messages to be transmitted over said telephone trunk toll line to Bruces Crossing or to any telephone owned by said Mutual Telephone Company of Bruces Crossing, and the said Ewen Telephone Company shall retain 25 per cent. of the collections made for said toll and shall credit the Mutual Telephone Company of Bruces Crossing with 75 per cent. of all collections for said toll, and settlement shall be made on or before the tenth day of each calendar month for the tolls collected during the preceding month.

(4) The rate now authorized for the Mutual Telephone Company of Bruces Crossing of \$2.00 a month to all its subscribers shall entitle such subscribers to free telephone service from their residence to Ewen over the Mutual Telephone Company's telephone trunk line.

(5) The territorial exchange boundary line between the exchanges of the Mutual Telephone Company of Bruces Crossing and the Ewen Telephone Company of Ewen shall be the township line between Stannard and McMillan Townships and the township line between Haight and McMillan Townships.

(6) The construction and operation of the telephone trunk line above authorized by the Mutual Telephone Company of Bruces Crossing in the manner and on the line above designated shall not give to it the right to construct, maintain or operate rural telephone lines in McMillan

Township, and the Ewen Telephone Company shall not build rural lines in Stannard Township or in Haight Township, without further permission from this Commission.

(7) As soon as this telephone trunk line is constructed by said Mutual Telephone Company of Bruces Crossing from Bruces Crossing to Ewen, it shall immediately install and thereafter maintain a switchboard at Bruces Crossing to which said trunk line shall be connected.

October 19, 1921.*

In re APPLICATION OF THE CITIZENS TELEPHONE COMPANY
RELATIVE TO RATES IN GROUPS No. 1, No. 2, No. 3, No. 4,
AND No. 5.

T-207.

Decided December 1, 1921.

Transfer of Exchange from One Group to Another Authorized.

ORDER.

In the above-entitled cause, the Commission having heretofore by its order† dated the tenth day of August, 1921, placed Jamestown in Group II., and upon a further hearing ordered by the Commission on its own motion, A. S. Bush of Jamestown having appeared before said Commission and shown cause why said telephone exchange at Jamestown ought to be taken out of Group II. and placed in Group I., and this Commission having given the same due consideration,

Therefore, it is hereby ordered by the Michigan Public Utilities Commission, That the exchange at Jamestown be, and the same is hereby, taken out of Group II. as fixed by the order of August 10, 1921, and placed in Group I.*

December 1, 1921.

* On November 23, 1921, increased rates were authorized *In re Citizens Mutual Telephone Company* at Vantown (T-366).

† See Commission Leaflet No. 118, p. 817.

***In re* APPLICATION OF THE SPINKS CORNERS TELEPHONE COMPANY FOR AUTHORITY TO INCREASE RATES.**

T-240.

Decided December 6, 1921.

Former Order Modified to Provide for Advance Payment of Telephone Rentals — Penalty for Failure to Make Prompt Payment Prescribed.

ORDER.

Application having been made by the above-named telephone company to modify the order* of this Commission of April 20, 1920, providing for payment of telephone rentals quarterly in advance, to payment monthly in advance, and to prescribe a penalty for failure to make prompt payment, and the same having been presented to the Commission and duly considered,

Now, therefore, it is hereby ordered by the Michigan Public Utilities Commission, That the order heretofore made in the above-entitled cause on April 20, 1920, be so modified as to provide for the payment of telephone rentals and charges monthly in advance, and that in case any subscriber shall neglect to pay on or before the twentieth day of the month upon which a bill shall be due, he shall pay an additional charge of 10 per cent. by way of penalty for failure to make a prompt payment. Toll bills shall be due and payable on the first day of the month after the same shall have been rendered and shall then be subject to a like penalty for non-payment.*

December 6, 1921.

* See Commission Leaflet No. 103, p. 548.

In re APPLICATION OF THE MICHIGAN STATE TELEPHONE COMPANY FOR AN INCREASE IN RATES IN ALL OF ITS EXCHANGES IN THE CITY OF DETROIT.

T-252.

Decided December 21, 1921.

Former Order Modified Reducing Certain Charges and Increasing the Number of Local Messages Allowed for Base Rate Payment.

ORDER.

An order* having been heretofore made July 9, 1920, effective August 1, 1920, fixing the rates, rentals, tolls and charges of applicant in its Detroit exchange, and this Commission having heretofore instituted an inquiry into the effect of said rates, rentals and charges and into the character of the service rendered in Detroit by said telephone company, and the city of Detroit having heretofore filed an application to reduce the rates, rentals and charges of said telephone company in its Detroit exchange, and various hearings having been had, and it appearing that the rates, rentals and charges of said telephone company in Detroit should be reduced;

Therefore, it is hereby ordered by the Michigan Public Utilities Commission, That, the following reductions in charges and increases in the number of local messages allowed for the base rate payment be made effective 12:01 A. M., January 1, 1922.

Private Branch Exchange and Business Intercommunicating Systems:

The charge for local messages over and above the number allowed for the base rate payment to be reduced to and fixed at 4½ cents per message.

Business, Individual Line:

The charge for local messages over and above the number allowed for the base rate payment to be reduced to and fixed at 4½ cents per message.

* See Commission Leaflet No. 105, p. 1612.

Residence, Individual Line:

The number of local messages allowed for the base rate payment to be increased to and fixed at 110 messages per month.

Residence, Two-Party Line:

The number of local messages allowed for the base rate payment to be increased to and fixed at 90 messages per month.

Residence, Four-Party Line:

The number of local messages allowed for the base rate payment to be increased to and fixed at 65 messages per month, and the charge for local messages over and above the number allowed for the base rate payment to be reduced to and fixed at 4½ cents per message.

and that, except as hereinbefore provided, the order* of July 9, 1920, shall continue in full force and effect.

December 21, 1921.

* See Commission Leaflet No. 105, p. 1612.

MISSOURI.

Public Service Commission.

In re SUSPENSION OF RATES OF THE WRIGHT CITY TELEPHONE COMPANY.

Case No. 1883.

Decided December 5, 1921.

Authorized Schedule Amended as to Switching Rates and Continued as Maximum Lawful Rates.

SUPPLEMENTAL ORDER No. 4.

It appearing that the Commission, after due investigation, and after the company named above had submitted satisfactory evidence at a public hearing held in Wright City, Missouri, that certain of its rates for telephone service charged at its exchange in Wright City, Missouri, were inadequate unjust and unreasonable, did, by its order in the above-entitled case, on April 30, 1919,* permit said company to put certain increased rates into effect for a temporary period, under certain terms and conditions, and did by its Supplemental Orders Nos. 2 and 3, issued on the fifteenth day of April, 1920,† and on the eleventh day of May, 1921,‡ respectively, permit said increased rates to be continued for further temporary periods, ending January 1, 1922, unless otherwise ordered by the Commission, and,

It now appearing, further, that the Commission, after investigation, finds from examination made of the books of the company that it will be able and is willing to allow a decrease to be made in the Class A or switching service rate to such subscribers as pay quarterly in advance.

* Noted in Commission Leaflet No. 90, p. 101.

† See Commission Leaflet No. 102, p. 179.

‡ Noted in Commission Leaflet No. 115, p. 1807.

The rate allowed for this class of service in the orders above referred to is \$6.00 per annum. The telephone company will amend its schedule now on file by adding the following:

Class A rural line subscribers paying quarterly in advance will be allowed a discount of 10 cents per month when paid during the first month in the quarter at the company's office.

The net rate thereby allowed for this class of service will be reduced from \$6.00 per annum to \$4.80 per annum.

It is, therefore, ordered, 1. That the Wright City Telephone Company at Wright City, Missouri, be permitted to amend its rate schedule now on file in the office of the Commission and authorized by its order* issued on the thirtieth day of April, 1919, by adding a discount charge for Class A subscribers as above indicated.

Ordered, 2. That such rates as are included in the rate schedule shall on January 1, 1922, and thereafter, be the maximum lawful rates to be charged for telephone service at Wright City, Missouri.

Ordered, 3. That this order shall take effect on January 1, 1922, and that the secretary of the Commission shall forthwith serve upon the parties hereto a certified copy of this order, and that the company shall, on or before the fifteenth day of December, 1921, notify the Commission in the manner prescribed in Section 25 of the Public Service Commission Law, whether the terms of this order are accepted and will be obeyed.

December 5, 1921.†

* Noted in Commission Leaflet No. 90, p. 101.

† On December 9, 1921, *In re Laclede Telephone Company* (No. 2207, and on December 13, 1921, *In re Craig Telephone Company* (No. 1901), authorized increased rates were made the lawful maximum rates, and on December 7, 1921, a decrease in rates was authorized *In re Napoleon Telephone Company* (No. 2846).

In re APPLICATION OF JOHN A. EBY TO SELL AND DALE J.
EBY TO BUY THE MISSOURI CITY TELEPHONE EXCHANGE.

Case No. 3187.

Decided December 5, 1921.

Purchase and Sale of Property Authorized.

ORDER.

Application having been made to the Commission under the provisions of the Public Service Commission Law by John A. Eby as owner of the Missouri City Telephone Exchange, for the consent of the Commission to sell the telephone system, plant, exchange and property, together with franchise, rights and contracts of the Missouri City Telephone Exchange, and of Dale J. Eby to purchase said telephone system, plant, exchange and property and franchise, rights and contracts, and the mayor of the city of Missouri City having advised the Commission that there is no objection on the part of the city or the public or patrons of the telephone company, so far as his knowledge extends, to the consummation of said transaction and, the Commission, having considered the application, finds that a formal hearing thereon is unnecessary and that the sale should be approved,

It is, therefore, after due deliberation, ordered, 1. That the consent of the Public Service Commission be, and the same is hereby, given to the sale and transfer of the telephone system, plant, exchange and property and all franchise, rights, and contracts in connection with the operation of said telephone system and plant and all property used and useful in connection therewith by the said John A. Eby and to the purchase thereof by the said Dale J. Eby for the consideration of \$5,000 agreeable to the contract between the said vendor and vendee.

Ordered, 2. That nothing in this proceeding or contained herein shall be construed as a finding by the Commission, either as to the value of the telephone plant, property, franchise and contracts, either in whole or in

part, transferred in this sale, or that the value placed thereon by the parties is reasonable, or that the rates charged by the Missouri City Telephone Exchange are reasonable and not excessive and not discriminatory, or that the service rendered by said company is adequate, efficient or sufficient.

Ordered, 3. That this order shall take effect on this date and that the secretary of the Commission shall serve certified copies thereof by mail, upon the parties affected by this proceeding.

December 5, 1921.*

In re APPLICATION OF THE WARRENTON TELEPHONE COMPANY
TO PUT IN FORCE CERTAIN CHARGES FOR TELEPHONE
SERVICE.

Case No. 3126.

Decided December 7, 1921.

**Rates for Certain Service Established—Restoration of Free Service
Denied.**

REPORT AND ORDER.

The Warrenton Telephone Company, herein referred to as the company, operating a general telephone exchange at Warrenton, Missouri, on September 12, 1921, filed with the Commission its P. S. C. Mo. No. 3, containing the following rates for service:

	<i>Per Month</i>
Business, direct line.....	\$2 00
Residence, direct line.....	1 25
Additional charge for desk set equipment, business.....	25
Moving charge	75

* On the same day consent to the sale and transfer by A. J. Erhart to Daniel W. Hern of the Butler-Rich Hill Telephone Company's exchange at Rich Hill was authorized, *In re Application of A. J. Erhart and Daniel W. Hern* (Case No. 3188).

<i>Rural or Farmer Line Service:</i>	<i>Per Annum</i>
Class A, switching	\$3 00
Class B, service	15 00
Class C, service	9 00
Class D, service	9 00
Class E, service	3 00
Rents due and payable in advance.	

We make a charge of 10 cents to non-subscribers on messages going out of our exchange area.

There was no change in any of the rates quoted above, but the Class B, C and D rates are entirely new. No subscribers are being furnished this grade of service and no applications are on file. The manager stated that he desired to file it so that if applications were received he would have a rate to quote the would-be subscribers. The charge of 10 cents to non-subscribers on messages going out of the exchange area is a new one.

Protests were received from the subscribers on the Bain-Gerdeman Farmers Telephone Company's switchboard. The schedule was therefore suspended by the Commission on the twenty-first day of September, 1921, to and including January 19, 1922, unless otherwise ordered by the Commission, and the case was heard by Special Examiner Johnson on October 6, 1921, in Warrenton, Missouri. The company was represented by its manager and the protestants by *R. D. Gerdeman*, of the Bain-Gerdeman Farmers Telephone Company. The case is, therefore, before the Commission for decision on the papers filed and the evidence introduced at the hearing.

The present owner purchased the telephone system at a cost of \$11,000 during the month of May, 1920. It was explained that the 10-cent charge asked was really a switching charge. The company furnishes free service to Marthasville. Bain and Wright City and expects to continue to do so. On February 21, 1921, the company put in force a charge of 10 cents to be made where any of the connecting companies at Bain, Wright City or Marthasville called the operator at Warrenton and asked for any

of the other connecting companies. As, for instance, if a subscriber on the switchboard at Bain asked for connection with a subscriber at Wright City the operator at Warrenton would make the connection and a charge of 10 cents would be made. The Bain company objected to this practice. The evidence showed that since February 21, 1921, to the date of the hearing but 13 calls of this character had been made by the Bain Telephone Company.

During the year 1907 a switchboard was installed at Bain, Missouri. The board was placed in the residence of the operator and is located about 9 miles from Warrenton. The testimony showed that for the first two years the Bain company paid the Warrenton Telephone Company \$15.00 per year for the service rendered by that company. Since that time they have paid nothing. Consequently the subscribers of the Bain exchange have for about twelve years secured free service, not only with the subscribers of the Warrenton Telephone Company but also free switching whereby they were able to connect with other companies in that vicinity. They also connect with other companies on the same basis and free service is thereby given to a number of the exchanges in that territory. The Warrenton Telephone Company claimed that it was not a matter of revenue, but that the switching of these free calls had gradually increased to such an extent that it was a hardship and, in its opinion, a 10-cent switching charge would be the means of reducing the unnecessary calls switched through its exchange.

The Commission feels that the company's position is well taken and that it would be against the best interests of all concerned to order this free service restored. The order of suspension issued in this case will be cancelled. The rate sheet will be filed and the rates allowed to go into effect on January 1, 1922.

It is, therefore, by the Commission ordered, 1. That the order of the Commission issued in this case on the twenty-first day of September, 1921, be cancelled, the P. S. C. Mo. No. 3, under suspension, be accepted and filed and the

company allowed to put the rates contained therein into effect on January 1, 1922.

Ordered, 2. That this order shall be in full force and effect on and after December 20, 1921, and that the secretary of the Commission shall forthwith serve a certified copy of the report and order herein on the interested parties, and that the said Warrenton Telephone Company, on or before the effective date of the order, notify the Commission in the manner prescribed in Section 25 of the Public Service Commission Law, whether the terms of this order are accepted and will be obeyed.

Dated at Jefferson City, Missouri, this seventh day of December, 1921.*

CITY OF KANSAS CITY v. KANSAS CITY TELEPHONE COMPANY,
DEFENDANT, AND CHAMBER OF COMMERCE, CITIZENS PRO-
TECTIVE LEAGUE, REAL ESTATE BOARD, *et al.*, INTER-
VENERS.

Case No. 3111.

Decided December 14, 1921.

**Tentative Value Determined — Increase in Rates Authorized in Excess
of Franchise Rates — Amount for Cost of Repairs and for
Depreciation and Return on Value of Receivers and
Transmitters Allowed in Operating Costs in
Lieu of Payment Under 4½ Per Cent.
Agreement — Toll Appor-
tionment Made.**

The city of Kansas City filed with the Commission a complaint that the Kansas City Telephone Company had applied for a new schedule of rates

* Increased rates formerly authorized were continued in effect for a further period in the following cases:

*DeKalb County Telephone Com-
pany* (Case No. 2267.) November 28, 1921.
*Thayer and Alton Telephone
Company* (Case No. 2000.) December 2, 1921.
Tri-County Telephone Company.. (Case No. 2801.) December 13, 1921.
*Salisbury Home Telephone Com-
pany and Chariton County
Telephone Company* (Case No. 1940.) December 14, 1921.

greatly in excess of the rates theretofore allowed by the Commission or agreed to in a franchise contract between defendant and complainant, and complained that no valuation had been made of defendant's property, which was necessary before fixing just and reasonable rentals, and prayed that the Commission enter upon and hold a hearing as to the propriety of the rates requested, and pending such hearing that the Commission suspend the operation of the schedule filed and proceed to place a valuation upon the property used in supplying local service in Kansas City, and cause an audit of the income and expenses of defendant to be made.

The defendant admitted that it had filed a new schedule of rates marked to become effective October 1, 1921, for all subscribers then receiving unified service, and thereafter for other subscribers as and when they also received unified service, and claimed that the present rates were inadequate and so low as to result in confiscation of its property. Defendant further stated that the work of consolidating the dual system in the city would be completed by November 1, 1921, and that upon such unification there would be approximately 11,000 telephones eliminated, which would result in a loss of \$669,222 per annum. Defendant further stated that at the time said franchise contract was entered into, it was the belief of all parties that operating expenses would soon return to a pre-war basis; that instead of this being the case operating costs had continued to increase until the amount paid in wages alone was \$1,350,000 annually over and above pre-war wages.

Engineers employed by the company placed the present fair value of defendant's property in Greater Kansas City at \$23,000,000. An engineer employed by the city placed the fair value, including intangible elements, at \$16,000,000. The Commission found that the defendant was entitled to tentative rates which would net it 12.5 per cent. on \$16,000,000, or \$2,000,000 per annum to cover depreciation return, surplus and contingencies.

The Commission found that the amount available for depreciation and return in the Kansas City area, as shown by a report made by the Commission's accountants for a period of nine months ending September 30, 1921, was \$1,073,560.95, which was equivalent to an annual amount of \$1,431,414.60, but that certain deductions should be made therefrom and additions thereto.

The Commission's accountants, in determining operating expenses, excluded the item of licensee revenue representing $4\frac{1}{2}$ per cent. of the gross revenue, and suggested a substitution therefor of the estimated costs of repairs to receivers, transmitters and induction coils, and an allowance for return and depreciation on the value of receivers and transmitters, such value being estimated at \$354,102.49.

The Commission adopted the suggestion of the accountants and deducted from the amount available for depreciation and return, \$13,625.91 for repair costs of receivers, transmitters and induction coils, and \$55,771.15

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for return and depreciation on the value of receivers and transmitters. The Commission also deducted from the amount available for depreciation and return, \$1,853.93, a saving made due to reduction in wages paid operators starting in service during August and September, the former scale being restored, however, on the first day of October; also \$1,236.03, rate case expenses, and \$422,000 loss on account of the removal of duplications, making total deductions of \$494,487.02. The Commission added to the amount available for depreciation and return, \$1,318.88 for floor space rental to be charged to the Kansas City Long Distance Telephone Company, and \$73,810.01 toll adjustment, making a total addition of \$75,128.89. With these adjustments the net profit on operations in the Kansas City area was found to be \$1,012,056.47.

With reference to the toll apportionments, the Commission's accountants in making their apportionments considered toll service as applying from switchboard-to-switchboard, while the city held to the theory that toll service applied from station-to-station. The Commission stated that since the toll companies owned the switchboards, and as far as the records showed, no equipment could be eliminated other than trunk lines if the company should cease handling long distance messages within the exchange, that it seemed doubtful that it would be just or reasonable to charge against toll revenues any maintenance, depreciation and return or general upkeep of the property other than possibly on the trunk lines; that if the exchange required practically the same equipment to handle the local calls alone as it required in handling both local and toll, then it cost the subscriber nothing in the way of maintenance, depreciation and return on the property by having the exchange handle toll messages.

The Commission found that the company had not introduced evidence in sufficient detail as to the cost of handling the toll business and in reference to its position that the toll message stopped at the switchboard to establish such contention, nor had court or commission decisions been cited showing that the question had been settled, and that since any increase in rates involved the setting aside of the rates provided in the franchise contract, a question that was involved in as much doubt as the question under consideration, should be taken in favor of the city as to the practical results.

The Commission further found that after deducting the adjusted net profit on operations from the amount heretofore found to be required in order to meet depreciation and return, an additional annual revenue of \$987,943.53 was necessary; that since the city assessed a tax of 2 per cent. on the gross revenue, it became necessary to increase the additional amount \$20,162.11, making a gross necessary increase in revenue of \$1,008,105.64; that the proposed schedule would produce increased revenue of \$1,484,957.40, which amount was in excess of that heretofore found necessary.

The Commission stated that it wished it to be distinctly understood that this was nothing other than a temporary case; that one of the principal reasons for permitting a new schedule of rates was to provide for a complete unified telephone service for Kansas City; that it would not permit the defendant to enjoy new rates until the service was completely unified.

Held: That the Kansas City Telephone Company should be permitted to file its proposed schedule of rates with the following modifications: business, individual line, to be reduced from \$12.50 as proposed, to \$11.00; residence, individual line, to be reduced from \$4.50 as proposed, to \$4.00, residence, two-party line, to be reduced from \$3.75 as proposed, to \$3.25, and residence, four-party line, to be reduced from \$3.00 as proposed, to \$2.75;

That the effective date of the rates herein authorized should be February 1, 1922, provided that the company file proof with the Commission before said date showing that unification of service had been completed.

REPORT.

The complaint of the city of Kansas City, Missouri, hereinafter called the complainant, states in substance the following:

That on, or about August 31, 1921, the Kansas City Telephone Company, hereinafter called the defendant, filed with this Commission, a new schedule of rates, rentals and charges, which said rates, rentals and charges are greatly in excess of the rates, rentals and charges heretofore allowed by the Commission, or agreed to and provided for in the franchise contract between said defendant and complainant, and which rates, rentals and charges are unjust, unlawful, unreasonable and excessive.

That there has never been a valuation of the property of the company made by the Commission, and that it is necessary and desirable in arriving at and fixing just and reasonable rates, rentals and charges, that the value of the property devoted to said service be ascertained, wherefore complainant prays:

(1) That the Commission enter upon and hold a hearing concerning the propriety of such rates, rentals and charges.

(2) That pending such hearing and decision thereon, the Commission suspend the operation of such schedule and defer the use of such rates, rentals and charges.

(3) That pending such hearing, the Commission proceed to value the property of said company used and useful in supplying local telephone service to the people of Kansas City.

(4) That the Commission cause an audit of the income and expenses of the company to be made, and that the expenses of all toll business be segregated from the expense of local business.

Answer of the defendant, Kansas City Telephone Company, in substance, admits that on August 30, 1921, it filed a new schedule of rates, rentals and charges for telephone service in Kansas City, Missouri, to become effective October 1, 1921, for all subscribers then receiving unified service, and thereafter for other subscribers as and when they also respectively receive unified service; denies that rates, rentals and charges set forth in said schedule filed by it are in any respect unjust, unlawful, unreasonable or excessive. Defendant company further states that the present rates under which it operated its telephone system in and about Kansas City, Missouri, during the past year are entirely inadequate, and so unreasonably low as to result in confiscation of its property.

Defendant further states that the work of consolidating the dual system of telephones in Kansas City, Missouri, will be completed by November 1, 1921; that upon complete unification there will be eliminated approximately 11,000 telephones in Kansas City, resulting in a loss in revenue of \$669,222 per annum; and that, consequently, the net revenue for the ensuing year (based on last year's experience) would be approximately \$472,000, which would not be sufficient to pay much more than one-half of the amount of interest which defendant will be obligated to pay on its bonded and floating indebtedness during the next year.

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In answer to complainant's reference to a certain contract made heretofore purporting to fix the amount of rates to be charged, defendant states that, at the time said contract was agreed upon, belief was entertained by all parties hereto, that operating expenses would soon return to a pre-war basis. Instead of this being the case, operating costs have continued to increase enormously; that increases have been made in wages amounting to \$1,350,000 annually over and above pre-war wages; that other operating costs have been increased approximately \$480,000 annually, making a total increase in operating costs of \$1,830,000 annually, which amount exceeds estimated increase in revenue from proposed rates by \$80,000.

Further answering, defendant avers that the necessity for changing the rates purported to be fixed by said contract has already been finally determined within the past year by this Commission in Case No. 2555,* and that the reasons for change of said contract rates still exist and are more potential today than ever before.

Defendant further claims that an inventory and valuation by Commission engineers of all of its property and an audit of its books, as prayed for by complainant would consume many months of time, and to suspend proposed rates in the meantime would prove disastrous to defendant and to the telephone service in and about Kansas City.

Wherefore, defendant prays that no suspension be made of said new schedule of rates.

On September 10, 1921, this Commission issued an order permitting L. B. Tennal, Fred Weber, A. E. Madorie, the East Side Protective and Improvement Association, the Retail Grocers Association, Midland Camp No. 1990, M. W. of A., to appear as interveners.

Hearings were held at Jefferson City on September 12, 13 and 14, and again on September 19 before the entire Commission.

* See Commission Leaflets No. 104, p. 1170, and No. 110, p. 1844.

On September 21, 1921, this Commission issued an order suspending the operation of the rates and charges proposed by defendant for a period of one hundred and twenty days from October 1, 1921, to and including January 28, 1922, to permit the Commission to enter upon a further investigation and hearing concerning the propriety and lawfulness of said proposed rates and charges.

After the completion of an audit of defendant's books by the Commission's accountants, hearings were held at Kansas City, Missouri, on November 21, 22, 23, 25, and 26, before four members of the Commission.

THE FACTS.

(a) *Capitalization:*

Defendant's balance sheet as at September 30, 1921, shows its capitalization as follows:

Stocks:

Capital stock, preferred.....	\$2,775,000 00
Capital stock, common.....	2,225,000 00
TOTAL	\$5,000,000 00

Long Term Debt:

Funded debt, Kansas City Telephone Company.....	12,000,000 00
Funded debt, Kansas City Home Telephone Company..	3,000,000 00
TOTAL	\$15,000,000 00

(b) *Valuation:*

Mr. G. A. Kositzky, chief engineer of the Ohio Bell and Indiana Bell Telephone Companies, formerly valuation engineer with the Bell Telephone company in Kansas City, Missouri, made an inventory and appraisal of the Bell property in Kansas City, Missouri, Kansas City, Kansas, Rosedale, Independence, Fairmount, in other words Greater Kansas City, based on average costs of material and labor during the period 1914 to 1918, applied to an inventory made during the winter of 1915-1916, plus additions to August 1, 1918. Kositzky's appraisal totalled \$10,428,299, as of August 1, 1918. The summary of Kositzky's appraisal is as follows:

1. Land	\$237,500 00
2. Buildings	311,867 00
3. Central office equipment.....	811,904 00
4. Subscribers' station equipment.....	636,290 00
5. Distribution system	4,159,142 00
	<hr/>
	\$6,156,703 00
6. Contingencies and commissions, 4 per cent.....	246,268 00
	<hr/>
	\$6,402,971 00
7. Engineering, 5 per cent.....	320,149 00
	<hr/>
	\$6,723,120 00
8. General expense, 2 per cent.....	134,462 00
	<hr/>
	\$6,857,582 00
9. Taxes:	
Amount paid year 1918—\$42,416; construction	
period thirty-six months; meantime eighteen	
months	63,624 00
	<hr/>
	\$6,921,206 00
10. Interest during construction—rate 6 per cent. per	
annum, or one-half of 1 per cent. per month, mean-	
time eighteen months, 9 per cent.....	622,909 00
	<hr/>
	\$7,544,115 00
11. Additions to plant since inventory to July 31, 1918...	1,052,322 00
	<hr/>
	\$8,596,437 00
12. Miscellaneous property:	
(a) Office furniture and fixtures..	\$53,128 00
(b) Vehicles	34,040 00
(c) Tools	24,602 00
(d) General stores equipment.....	805 00
	<hr/>
	112,575 00
	<hr/>
	\$8,709,012 00
13. Cost of establishing business.....	1,719,287 00
	<hr/>
GRAND TOTAL	\$10,428,299 00

Mr. James E. Allison, consulting engineer, St. Louis, Missouri, made an inventory and appraisal of the property of the Kansas City Home Telephone Company. The Allison appraisal is based on an inventory made in 1914

to which are applied mean prices of labor and material during the period of 1914 to 1918, plus additions to August 1, 1918.

Allison appraised the properties at Kansas City, and Independence, Missouri, and at Kansas City, Kansas, at \$10,941,821 as at August 1, 1918. The summary of the Allison appraisal is as follows:

<i>Direct Construction</i>			
<i>Class of Plant</i>	<i>Cost</i>	<i>Overhead Per Cent.</i>	<i>Total</i>
<i>Real estate:</i>			
Land	\$189,990 00		
Buildings	326,133 94		
	<hr/>		
TOTAL	\$516,123 94	20	\$619,349 00
<i>Equipment:</i>			
Central office equipment.....	755,747 80		
Subscribers' stations	381,391 96		
P. B. X. booths and fittings..	235,922 20		
	<hr/>		
TOTAL	\$1,373,061 96	20	1,647,674 00
<i>Aerial Plant:</i>			
Poles and fittings	771,529 19		
Aerial cable and terminals.....	812,713 90		
Aerial wire	286,844 30		
Drops	156,342 13		
Right-of-way	27,151 00		
	<hr/>		
TOTAL	\$2,054,580 52	20	2,465,497 00
<i>Underground Plant:</i>			
Conduit	737,557 63		
Cables and terminals.....	960,929 26		
	<hr/>		
TOTAL	\$1,698,486 89	20	2,038,184 00
<i>Miscellaneous:</i>			
Tools, vehicles and autos.....	35,469 00		
Furniture and fixtures.....	33,385 00		
Working capital, supplies.....	233,026 00		
Working capital, cash.....	140,000 00		
	<hr/>		
TOTAL	\$441,880 00		\$441,880 00

<i>Cost of Plant</i>	<i>Overhead</i>	
Net additions to plant to August	<i>Cost</i>	<i>Per Cent.</i>
1, 1918		<i>Total</i>
1, 1918	\$1,470,899 00	\$1,470,899 00
TOTAL	\$7,555,032 31	\$8,683,483 00
Work in progress as at August		
1, 1918	59,490 00	59,490 00

PHYSICAL PROPERTY.

1. (a) Construction cost	\$7,212,584 00
(b) Additions since inventory to August 1, 1918.....	1,470,899 00
TOTAL	\$8,683,483 00

INTANGIBLE PROPERTY.

2. Promoters' profit, 5 per cent. of initial investment (1a)	360,628 00
3. Legal expense	16,000 00
4. Capitalization of initial risk (1a), 10 per cent. of initial capital	721,258 00
5. Deficit of initial operation, 3 per cent. for three-year period, less item 7.....	469,132 00
6. Cost of assembling capital at 5 per cent.....	434,174 00
7. Cost of attaching business at \$4.00 per station.....	180,000 00
8. Total intangibles	\$2,181,192 00
9. Total physical and intangible property.....	10,864,675 00
10. Work in progress as at August 1, 1918.....	59,490 00
11. Additional paving (uneut).....	17,656 00
12. GRAND TOTAL	\$10,941,821 00

NOTE: Item 7 is based on 45,000 stations.

Kositzky testified that an annual allowance amounting to $5\frac{1}{2}$ per cent. to 6 per cent. should be made to cover replacements. Allison testified that the customary annual allowances to cover replacements were from 5 to 6 per cent. of the value of the property. Neither Allison or Kositzky made any deduction to cover accrued depreciation.

Mr. W. C. Polk, consulting engineer with the Kansas City Telephone Company, started with the Kositzky and Allison appraisals and added thereto fixed capital added during the period July 1, 1918, to July 31, 1921, amounting

to \$1,481,063.17, construction work in progress amounting to \$3,533,288.63, materials and supplies amounting to \$750,000, working capital amounting to \$420,000, making a total of \$27,477,325, from which he deducted \$373,026 included in the Allison appraisal to cover cash working capital and materials and supplies, thus getting a total of \$27,104,299 as of July 31, 1921. Mr. Polk stated that \$23,000,000 was the minimum fair present value of the property. He estimated that \$1,000,000 should be credited annually to a depreciation reserve and replacement fund. Mr. Polk made no deduction to cover accrued depreciation, but on cross-examination, he stated that the accrued depreciation in the property of the Kansas City Home Telephone Company was 15 per cent. in 1918.

Mr. H. P. Topping, consulting engineer of Kansas City, Missouri, who is now engaged in making an inventory of the property of the Kansas City Telephone Company stated that in his opinion the minimum fair present value of the property of said company is \$23,000,000. Topping not having completed his inventory, has made no appraisal of the property. He characterized his opinion as to the fair present value of the property as "My best judgment based on my experience as a guess."

Mr. Herman Henrici, of the firm of Henrici-Lowry, consulting engineers of Kansas City, Missouri, was employed by the complainant to appraise defendant's property. Henrici started with the appraisal of the property of the Kansas City Home Telephone Company made by Jas. E. Allison and the appraisal of the property of the Southwestern Bell Telephone Company made by G. A. Kositzky and added thereto additions and betterments from August 1, 1918, to September 30, 1921, and also added the cost of transmitters, receivers and induction coils owned by the American Telephone and Telegraph Company, but used by the Southwestern Bell Telephone Company. The total valuation thus obtained was \$23,401,056. Henrici assumed that the unit prices used by the company engineers were a correct reflection of the mean 1914-1918 prices, and that

such prices were 35 per cent. higher than pre-war prices, as testified by company engineers, and taking pre-war prices as 100 per cent., Henrici reduced the Allison and Kozitzky appraisals $18\frac{1}{2}$ per cent. on all items contained in said appraisal (except land, right-of-way and instruments) and additions thereafter.

Taking as a basis, the composite life of the plant as twenty-five years, Henrici assumes that twenty years of the plant construction was during the period prior to the war and installed at pre-war prices, and that four years of the plant construction was made during the war at war prices. The company engineers testified that war prices were 60 per cent. higher than pre-war prices. Now one-sixth of the total twenty-four year period was during the 60 per cent. excess price period, which is equivalent to a 10 per cent. excess price spread over the entire period.

Henrici claims, therefore, that the Allison-Kositzky appraisals (135 per cent. of pre-war prices) less 110 per cent. of pre-war prices, equals 25 per cent. of pre-war prices, which is the excess value contained in the Allison-Kositzky appraisals. This 25 per cent. of pre-war prices (110 per cent.) is equivalent to $18\frac{1}{2}$ per cent. of the Allison-Kositzky appraisals, (135 per cent.); in other words, 25 per cent. of any quantity is equivalent to $18\frac{1}{2}$ per cent. of that same quantity.

In addition to this $18\frac{1}{2}$ per cent. reduction, Henrici made other deductions for excess overheads and intangibles, and arrives at an undepreciated value of \$16,396,989, as at September 30, 1921.

Counsel for complainant and interveners claims that the Henrici valuation of \$16,396,989 includes depreciable property to the amount of \$15,035,097, and that this latter figure should be depreciated 15 per cent., which is equivalent to \$2,255,265. Deducting this accrued depreciation from \$16,396,989, there remains \$14,141,724, the depreciated value as at September 30, 1921. This claim for a reduction in the valuation as outlined above is based on the testimony of Jas. E. Allison (September 13, 1921, Transcript, p. 113)

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to the effect that the average condition of the property in 1918 was 85 per cent.

With reference to the book value of defendant's property, Commission accountants state:

"The consolidation of the properties of the Home Telephone Company and the Southwestern Bell Telephone Company in Kansas City and vicinity was effected August 1, 1919, but the fixed capital transferred was as of date August 1, 1918.

The Kansas City Telephone Company took over the properties of each of the aforesaid companies and capitalized the difference between the securities issued and assumed, and the current assets, current liabilities and deferred items, acquired and assumed, as at August 1, 1919, as shown on Statement No. 1. To this have been added the net additions from August 1, 1918, to September 30, 1921, resulting in the book figure of \$17,399,856.54, as shown on same statement.

The books of the Home Telephone Company of Kansas City show the following:

Fixed capital as at July 31, 1918.....	\$7,546,862 52
Reserve for depreciation.....	965,221 25

DEPRECIATED COST	\$6,581,641 27
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The books of the Southwestern Bell Telephone Company were not available; hence we were unable to secure the book figures for the two properties consolidated.

Appraisals were made of each property, as of date August 1, 1918, and assuming the book figures of each property would correspond to the appraisal, the following would should estimated combined book figures:

Appraisal of Physical Properties:

Allison appraisal (Home property).....	\$8,385,947 00
Kositzky appraisal (Bell property).....	8,709,012 00
	<hr/>
	\$17,094,959 00

Ratio of Bell to Home property — 103.8.

$103.8 \times \$7,546,862.52 = \$7,833,643.29$.

Book cost of Home property.....	\$7,546,862 52
Estimated book cost of Bell property.....	7,833,643 29

UNDEPRECIATED ESTIMATED TOTAL BOOK COST.....	\$15,380,505 81
Net additions, August 1, 1918, to July 31, 1919.....	466,810 68
Net additions per Statement No. 2.....	1,175,631 28
Fixed capital prior to August 1, 1918 (Estimated).....	15,380,505 81

TOTAL	\$17,022,947 77
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The gross additions and removals from August 1, 1919, to September 30, 1921, for the Kansas City Exchange resulting in net additions in the sum of \$1,051,898.91, have been verified by an examination of the detail records, estimates, vouchers, payrolls, etc. and are shown in detail on Statement No. 2.

During the year 1920, the company purchased several motor cars, trucks, etc., amounting to.....	\$29,213 96
Less credit for old cars turned in.....	4,865 00

Amount charged to fixed capital.....	\$24,348 96
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Fixed capital should have been credited with the amount charged therein for the old cars traded, but inasmuch as same were received from the Southwestern Bell Telephone Company, and no records were available from which we could ascertain the original cost; and for the further reason that we are not attempting to secure the original cost of the entire property at this time, we have made no adjustment to the book figures to cover the excess amount capitalized.

The company has expended for uncompleted construction at September 30, 1921, \$3,005,799.57, and the major portion of this sum will be charged to fixed capital when work is finished."

(c) Operating Revenues and Expenses:

Commission's Exhibit No. 1, Statement No. 3, portrays the profit and loss account of the system (entire company) for the nine months ended September 30, 1921.

Condensing this statement to general totals, it shows as follows:

Revenues:

Exchange revenues	\$3,618,122 63
Toll revenues	96,351 98
Miscellaneous operating revenues	125,993 11
<hr/>	
TOTAL OPERATING REVENUES.....	\$3,840,467 72
Operating expenses and taxes.....	2,771,970 38
<hr/>	
Available for depreciation and return.....	\$1,068,497 34
Add other income.....	21,571 59
<hr/>	
GROSS INCOME	\$1,090,068 93

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Less:

Interest, discount, etc.....	\$542,792 68	
Advertising rates and unification.....	23,778 04	
Rate case expenses	2,781 07	
Licensee revenue (4½ per cent.).....	131,655 07	
Financial and consolidation.....	1,794 01	
Non-operating expenses	964 78	
		703,765 65

NET PROFIT AVAILABLE FOR DEPRECIATION AND SURPLUS. \$386,303 28

The operating revenues and operating expenses set out in the foregoing system profit and loss account were segregated to toll and exchange and the exchange, in turn, apportioned between Kansas City area and other exchanges by the Commission's accountants; the results of such segregation and apportionment are shown in this Exhibit No. 1, Statement No. 6.

Condensing this latter statement by excluding the system and other exchange columns, and listing revenues by general accounts only, the exhibit shows as follows:

	Assigned to Toll		Assigned to Exchange
	American Telephone and Telegraph and Southwestern Bell Telephone Companies	Kansas City Long Distance Telephone Company	Kansas City Area
<i>Operating Revenues:</i>			
Exchange revenue.....			\$3,502,831 69
Toll revenue.....	\$68,400 00	\$27,951 98	
Miscellaneous operating revenue..			118,740 49
TOTAL OPERATING REVENUE	\$68,400 00	\$27,951 98	\$3,621,572 18
<i>Operating Expenses:</i>			
Maintenance.....			\$513,796 01
Traffic.....	\$2,301 80	\$43,952 30	1,233,704 70
Commercial.....	28,396 18	7,661 87	357,213 14
General.....	3,206 73	6,708 00	270,455 73
Taxes.....			172,841 65
TOTAL EXPENSES	\$33,904 71	\$58,322 17	\$2,548,011 23
Net profit from operations.....	\$34,495 29		\$1,073,560 95
Net loss from operations.....		\$30,370 19	

T. B. Cornell and Company, certified public accountants of Kansas City, were employed by the complainant to audit the books and records of the defendant. J. M. McShane, certified public accountant of Kansas City, Missouri, was engaged by the interveners. No report was filed by the complainant's accountants. Mr. McShane, for the interveners, accepted the Commission's accountants' statement of revenues and expenses, with the exceptions of the allocation of revenues to toll and exchange and the apportionment of expenses to toll and exchange, and a further deduction of \$339,508.80, which he stated represented the excess expense included in the nine months' operations due to inefficient management.

The Commission's accountants in their report excluded the item of licensee revenue, representing $4\frac{1}{2}$ per cent. of gross revenue paid to the American Telephone and Telegraph Company, amounting to \$131,655.07 for the nine months under review, and suggested a substitution therefor of the estimated cost of repairs to American Telephone and Telegraph Company's receivers, transmitters and induction coils, aggregating \$11,354.92 for nine months, and also the substitution of a return and depreciation allowance on the value of said receivers and transmitters; said value being estimated at \$354,102.49.

The Commission's accountants also excluded from the nine months' operating expenses under review the following items:

Rate case expenses.....	\$2,781 07
Advertising	23,778 04

They further called attention to the fact that during the months of August and September, incoming operators were paid at an initial wage of \$12.00 per week and that on October 11, 1921, the wage of \$14.00 per week, in effect prior to August 1, 1921, was restored, and suggested that in basing rates for the future, this matter should be given consideration. The amount involved aggregated \$1,951.51 for the two months.

Said accountants also advocated charging the Kansas City Long Distance Telephone Company with a floor space rental for the space occupied by said toll company's board in one of the local exchanges. The amount estimated for nine months is \$989.16.

The defendant introduced evidence to the effect, that owing to the removal of duplicate telephones, due to unification, they would lose \$565,537.44 annually. This exhibit indicated a total loss in stations of 13,140, of which 2,623 were actually removed between the dates of July 1 and November 1, 1921.

Complainant and interveners in their argument reduce this estimated loss to \$214,125.60 per annum.

CONCLUSIONS.

(a) City Ordinance Rates:

We have before us again the matter of rates provided for in the city ordinances incident to consolidation of the then two competing telephone companies in Kansas City. This particular proposition was gone into quite fully in the hearing before this Commission in Case No. 2555,* with subsequent hearings therein. Moreover, in issuing our order in the original consolidation case filed with our Commission, Case No. 2077,† upon our own initiative that our Commission might not be embarrassed in the future relative to the subject matter covered therein, we incorporated a plain recital in said order, to wit:

"Provided, that nothing contained in this Section shall be considered a waiver of the duty and power of this Commission, at any time hereafter, to fix just and reasonable rates under and pursuant to the Public Service Law of this State."

Our Commission would much like to be able to preserve the contractual terms incorporated in all contracts brought before us. But it must be plainly understood that our legal function is to exercise by delegated authority the

* See Commission Leaflets No. 104, p. 1170, and No. 110, p. 1844.

† See Commission Leaflet No. 93, p. 963.

police power of the State. It is our legal, bounden duty to require of the instant telephone utility now undergoing investigation by us that it furnish a constant telephone service of a reasonable meritorious quality to its many thousands of patrons. On the other hand it is equally an exacting duty resting upon us to see that the utility receives its legitimate operating expenses, and a yearly return to cover depreciation and investment value, if same may be forthcoming from reasonable rates. Our guiding star must be in exercising the police power of the State to see that the public gets service and the utility gets protection upon the fair value of its property used and useful in furnishing service to the public. The heretofore mentioned propositions must control our actions whether the results therefrom coincide with collateral contracts or not.

We must likewise keep before us the fact that the primary end to be sought by all interested parties hereto is that of prompt unification of the telephone service of Kansas City. Such will be one of our requirements of the utility. Therefore, we of necessity must recognize that we cannot make this important requirement of the utility on the one hand and not on the other hand provide sufficient revenue to keep the utility out of receivership. To permit such a condition to arise would of certainty be a short sighted policy on the part of our Commission and in the end cause almost irreparable injury to the utility and the thousands of people of Kansas City that it serves with its property.

We have heretofore had actual experience with the direct issue of inferior telephone service between the utility now under investigation and its users in Kansas City, and we know that a reasonable degree of efficient telephone service is unquestionably demanded in Kansas City. A continuity of this class of telephone service can only be furnished by the instant utility upon our providing it with additional operating revenue.

The city and associate interveners in their brief quote at length from our decision in the *St. Joseph Transmis-*

sion *Company Case* (9 Mo. P. S. C. 179) and argue with earnestness that we should follow that decision in deciding the instant case. Counsel in their brief have misconstrued the theory upon which the transmission company case was decided. Moreover, the transmission company refiled the same cause before our Commission and we rendered decision therein entirely out of line with the construction which appears to have been placed upon our decision by counsel's brief. (See *In re St. Joseph Transmission Company*, Mo. P. S. C., Advance Sheet No. 1, Volume 10, page 77).

We think the following excerpts from the above decision will suffice to fully explain the whole subject matter.

"This brings us to the crux of this whole subject matter, viz: the written contract between applicant and the city of Oregon, and duly incorporated in the ordinances of the city. This issue has previously been before the Commission for decision, and the Commission, by a divided opinion, reached a conclusion adversely to the applicant. (See *In re St. Joseph Transmission Company*, 9 Mo. P. S. C. 179).

It might not be amiss to herein incorporate a cursory history of the cause, *supra*, before the Commission.

The applicant had filed with the Commission on December 6, 1919, its petition praying for an increase in its rates and charges to the city of Oregon.

The application was bottomed practically in its entirety upon the fact that its operating expenses had been greatly increased, due primarily, to a certain coal rider charged it upon accounts rendered it by the St. Joseph Railway, Light, Heat and Power Company.

The record evidence developed the fact that applicant had been paying the excess charges caused by the coal rider for over a year, without formal protest thereto concerning.

When the cause was finally argued and submitted to the Commission the applicant, upon the initiative of the Commission, was granted leave to further re-open the case by making the St. Joseph Railway, Light, Heat and Power Company party defendant thereto.

It was the unexpressed opinion of the Commission at that time, that before financial relief, if any, should be granted applicant, that it should bring before the Commission in due form the issue as to whether or not the financial relief, if granted, would be chargeable to either or both the St. Joseph Railway, Light, Heat and Power Company or the city of Oregon. This suggestion from the Commission the applicant expressly refused to follow, and upon the record evidence then before us the majority

opinion of the Commission was written refusing to disturb the terms and conditions of the written contract existing between applicant and the city of Oregon and in consequence thereof saddle over the city of Oregon payment of all financial relief granted.

The applicant, upon its own initiative, sought out and followed its own prescribed ideas and theories as to the proper source from which it should be accorded relief and the issues were decided adversely to it. * * *

Applicant in the instant case has brought before the Commission all interested parties, clearly established its operation at less than actual cost, and shown that the change of conditions subsequent to entering the contract has occasioned such loss. In view of such circumstances, action by the Commission in granting some relief is reasonable, just and imperative if applicant is to continue to serve the public, as operation at a loss cannot be sustained for an indefinite period and is not to be expected on the part of the reasoning public.

The contract between the city of Oregon and the applicant contains the following provision:

'It is further understood and agreed that this contract shall be in full force and effect and binding on the city of Oregon, and on the said St. Joseph Transmission Company, for a period of ten years, from the date of this contract, when this contract shall be duly ratified by a two-thirds majority of the qualified voters of the said city of Oregon, voting at an election to be held for that purpose, and that all the terms, conditions, provisions, and the rates herein contained, and agreed upon, shall not be modified or changed during the term of this contract.'

That the Commission, acting under and by virtue of the police power of the State, has authority to grant relief to either party of a contract such as, *supra*, where necessity warrants the requirement is no longer a debatable issue. (Cases cited).

The Commission finds that applicant must be given financial relief, if it is to continue to perform its public functions and serve to the inhabitants of our State its finished product of electric current in the section of the State now traversed by its transmission line. The applicant is now plainly confronted with bankruptcy, and for the Commission to hold otherwise than above indicated simply means that applicant's consumers must suffer the loss of electric service. Practically the entire unfortunate surroundings of applicant's business are attributable to the abnormal business conditions of the business world, which in turn are directly traceable to the late war.

It has been the pronounced policy of the Commission during these trying times to extend temporary relief to utilities, where warranted by law and facts, that they may continue to function in behalf of the consuming public."

We cannot agree with counsel for the city and interveners that our decision quoted in their brief from the transmission company case should be controlling in the instant case.

(b) Fair Present Value of Defendant's Property:

The Commission's accountants have not been able to ascertain the original cost of defendant's property, nor have the Commission's engineers made an inventory and appraisal of said property. Defendant's own engineers are now engaged in making an inventory and appraisal of defendant's property, and when such inventory and appraisal has been completed, the Commission's engineers will be required to check same, and Commission's accountants will be required to make a complete audit of defendant's books and ascertain, if possible, the original cost to date of defendant's property. After this appraisal and audit have been completed by its engineers and accountants, the Commission will find and fix the fair present value of defendant's property.

Pending further investigation, as outlined above, the Commission will fix only a tentative fair present value of defendant's property. Polk and Topping, engineers employed by defendant, and whom defendant's counsel states are the two men who are perhaps today most familiar with the property, both testified that the fair present value is in excess of \$23,000,000. Henrici, engineer, employed by complainant, testified that the fair present value of defendant's property, including intangible elements of value, is \$16,500,000. Counsel for complainant and interveners claim that the fair value of the property used and useful in the service, including going value, does not exceed \$16,000,000, as at September 30, 1921. All of these figures relate to the property in greater Kansas City. The Commission, however, is concerned at this time with only the property within the Kansas City exchange area; consequently, all of these figures are subject to adjustment.

Briefly, we start with the Allison and Kositzky appraisals which are based on prices 35 per cent. in excess

of pre-war prices (Case No. 2555,* Transcript, 6-25-20, page 92), and reduce the prices on the items in those appraisals which were installed during the pre-war period 35 per cent. All subsequent additions and betterments to property are included at cost to defendant as shown by its books. In other words, all property that was installed prior to the war is priced in this adjustment on the basis of pre-war costs, and all subsequent additions to property are included in the adjustment at actual cost to defendant. One other adjustment is made,—instead of pyramiding construction overhead costs as Kositzky did, we have allowed a straight 20 per cent. to cover such costs. This 20 per cent. allowance is, in our opinion, ample to cover all necessary construction overhead costs. The details of our adjustment are as follows:

ALLISON'S APPRAISAL OF PROPERTY OF KANSAS CITY TELEPHONE COMPANY,
AS AT JULY 31, 1918.

Construction cost, including construction overhead costs....	\$7,212,584
Less 35 per cent., to place above on pre-war basis.....	2,524,404

TOTAL CONSTRUCTION COST ON PRE-WAR BASIS.....	\$4,688,180
Additions since inventory to August 1, 1918.....	1,470,899
Legal expense	16,000

Allison's appraisal as adjusted.....	\$6,175,079
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KOSITZKY'S APPRAISAL OF PROPERTY OF SOUTHWESTERN BELL TELEPHONE
COMPANY, AS AT JULY 31, 1918.

Construction cost, exclusive of construction overhead costs..	\$6,156,703
Add construction overhead costs, 20 per cent.....	1,231,341

TOTAL	\$7,388,044
Miscellaneous property	112,575

Total construction cost, including overhead costs.....	\$7,500,619
Less 35 per cent. to place above on pre-war basis.....	2,625,217

TOTAL CONSTRUCTION COST ON PRE-WAR BASIS.....	\$4,875,402
Additions since inventory to August 1, 1918.....	1,052,322

Kositzky's appraisal as adjusted.....	\$5,927,724
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* See Commission Leaflets No. 104, p. 1170, and No. 110, p. 1844.

The total of the Allison and the Kositzky appraisals as adjusted above is \$12,102,803. Starting with this figure and adding additions and betterments to property since August 1, 1918, we have the following:

Total of Allison and Kositzky's appraisal as adjusted..	\$12,102,803 00
Additions, August 1, 1918, to August 1, 1919 (Southwestern Bell Telephone Company).....	245,016 43
Additions, August 1, 1918, to August 1, 1919 (Home Telephone Company)	221,794 25
Additions, August 1, 1919, to September 30, 1921.....	1,175,631 28
Deferred consolidation expense.....	769,282 96
Construction work in progress (portion now in use)....	1,000,000 00
	<hr/>
	\$15,514,527 92
Cash, working capital.....	460,000 00
Materials and supplies.....	600,000 00
	<hr/>
TOTAL TO SEPTEMBER 30, 1921.....	\$16,574,527 92

The above applies to greater Kansas City. As we are now concerned only with the property within the Kansas City exchange area we adjust the above figures as follows:

\$12,102,803 x 95.3 per cent.....	\$11,533,971 00
Additions, August 1, 1918, to August 1, 1919 (Southwestern Bell Telephone Company).....	240,278 26
Additions, August 1, 1918, to August 1, 1919 (Home Telephone Company)	221,794 25
Additions, August 1, 1919, to September 30, 1921*.....	1,181,024 40
Deferred consolidation expense.....	769,282 96
Construction work in progress (portion in use).....	1,000,000 00
	<hr/>
	\$14,946,350 87
Cash, working capital, \$460,000 x 96.5 per cent.....	443,900 00
Materials and supplies, \$600,000 x 96.5 per cent.....	579,000 00
	<hr/>
TOTAL APPLICABLE TO KANSAS CITY EXCHANGE AREA.	\$15,969,250 87

*Additions applicable to Kansas City exchange area are greater than total additions by reason of the fact that there was a net credit to fixed capital in the outside area.

Defendant's engineer testified that the average condition of the property in 1918 was 85 per cent. In other words, the estimated accrued depreciation was 15 per cent. Adjusting for this accrued depreciation, we have the following:

\$11,533,971 x 85 per cent.....	\$9,803,875 00
Additions, August 1, 1918, to August 1, 1919 (Southwestern Bell Telephone Company).....	240,278 26
Additions, August 1, 1918, to August 1, 1919 (Home Telephone Company)	221,794 25
Additions, August 1, 1919, to September 30, 1921.....	1,181,024 40
Deferred consolidation expense.....	769,282 96
Construction work in progress (portion in use).....	1,000,000 00
	<hr/>
	\$13,216,254 87
Cash, working capital.....	443,900 00
Materials and supplies.....	579,000 00
Going value	1,600,000 00
	<hr/>
TOTAL	\$15,839,154 87

In view of the foregoing, and after careful consideration of all of the evidence in this case bearing on valuation of the property, we conclude that the tentative fair present value of defendant's property, including all elements of value, tangible and intangible, as at September 30, 1921, is the sum of \$16,000,000.

We conclude that defendant is entitled to tentative rates which will net it 121½ per cent. of \$16,000,000, or \$2,000,000 per annum to cover depreciation, return, surplus and contingencies.

(c) Operating Revenues and Expenses:

Taking as a starting point the nine months' figure shown in Commission's Accountants' Exhibit No. 1, Statement No. 6, viz: \$1,073,560.95, as the amount available for depreciation and return from the Kansas City area operations (equivalent to an annual amount of \$1,431,414.60) we have the following adjustments to consider:

American Telephone and Telegraph Company's receivers, transmitters and induction coils — repairs.

American Telephone and Telegraph Company's receivers and transmitters — return and depreciation on value.

Rate case expenses.

Advertising.

Operators' salaries (change in initial rate).

Floor space rental, toll board, Kansas City Long Distance Telephone Company.

Loss due to removal of duplicates.

Inefficiency of management.

Toll and exchange apportionment.

We shall consider these in the foregoing order, and deal with them on an annual basis.

Receivers, Transmitters and Induction Coils — Repairs
(\$13,625.91):

Following the precedent established by the Commission in former cases and basing our repair costs on the latest estimates available, we have added to the company's operating costs the above amount, arrived at as follows:

\$11,354.92 for nine months equals \$15,139.90 per annum, and prorating this latter figure to the Kansas City area upon the basis of the American Telephone and Telegraph Company's telephones used in the respective areas, assigns 95 per cent. to the Kansas City area.

Return and Depreciation on American Telephone and Telegraph Company's transmitters and receivers
(\$55,771.15):

The value of receivers and transmitters, as shown in Commission's accountants' report is \$354,102.49. The testimony before the Commission in other cases is that 10 per cent. is a fair rate of depreciation on these instruments. We have, therefore, applied 17½ per cent. for depreciation and return on the value shown, which results in an annual allowance of \$61,967.94, and prorating this, 95 per cent. to the Kansas City area, indicates \$55,711.15 as the proper adjustment to the Commission accountants' figures.

Rate Case Expenses (\$1,236.03):

This represents one-third of the annual equivalent of the amount of rate case expenses incurred during the period under review. In other words, we are prorating this cost over three years.

Special Advertising — Nine Months (\$23,778.04):

The item of advertising, which the Commission's accountants eliminated from operating expenses, has not been restored by the Commission. The company was requested to furnish a statement showing the cost of each advertisement; also a copy of the published article. No statement of individual cost has been received, and while it is possible that some of these newspaper articles are proper operating charges, the Commission, without the statement requested, cannot make any apportionment.

Operators' Salaries — Change in Initial Rate (\$1,853.93):

On August 1, 1921, the company reduced the wage paid to operators starting in service, from \$14.00 per week to \$12.00. This former scale was restored October 1, 1921. The saving accruing in August and September should be given consideration in basing rates for the future. The company advised that the \$12.00 rate was not attractive and the class of employees secured was not capable. The total saving during the two months was \$1,951.51, and in this restoration we have prorated this amount to the Kansas City exchange area on the basis of the Kansas City area operators to operators in other exchanges. This sum is now added to defendant's cost of operation.

Floor Space Rental — Kansas City Long Distance Telephone Company's Toll Board (\$1,318.88):

The estimated space rental of the Kansas City Long Distance Telephone Company's toll board in the local exchange is shown in Commission's accountants' report as \$989.16 for nine months, which is equivalent to \$1,318.18 per annum. This sum we have deducted from the Kansas

City area expenses and assessed it against the expenses of the Kansas City Long Distance Telephone Company's toll service.

Loss in Revenue Account—Removal of Duplicates (\$422,000):

The defendant submitted a statement showing duplicate stations already removed and to be removed, as per orders on file November 1, 1921.

Summarized, said statement shows as follows:

	<i>Number of Stations</i>	<i>Monthly Revenue</i>	<i>Annual Equivalent</i>
Completed	2,623	\$10,351 31	\$124,215 72
To be completed.....	10,517	36,776 81	441,321 72
	13,140	\$47,128 12	\$565,537 44

Two adjustments should be made to the above estimate, viz:

- (1) To care for the normal growth of the business.
- (2) To eliminate the loss already shown in Commission's accountants' report.

Considering the first, we find Commission's Exhibit No. 1, Schedule 13, shows the net gain in stations as follows:

	<i>Connects</i>	<i>Disconnects</i>	<i>Net Gain*</i>
August 1 to December 31, 1919.....	9,948	5,388	4,560
Year 1920	22,634	18,721	3,913
January 1 to September 30, 1921.....	18,313	19,756	*1,448
	50,895	43,865	7,030

* Loss.

The nine months of 1921 cannot be considered, as removals due to duplication were being made during this period. The last five months of 1919 is startlingly contrasted with the year 1920. The connects are almost proportionate, *i. e.*, twelve months is 2.4 times five months and $9,948 \times 2.4 = 23,875$, as compared with 22,634; but the

disconnects do not preserve the same degree of uniformity — $5,388 \times 2.4 = 12,931$, as compared with 18,721. The cause of this increased loss in 1920 we do not know. However, we believe the period of seventeen months, ended December 31, 1920, can be assumed as indicative of the natural growth in the absence of anything more definite. The total net gain for the seventeen months is 8,473, or equal to an annual increase of 5,976. However, the 5,976 stations would not be all installed on the first day of the ensuing year, so we must assume that the installations would be uniform per month, and for that reason, take one-half of the 5,976, or 2,988. This is 23 per cent. of 13,140, and 23 per cent. of \$565,537.44 amounts to \$130,073.61, which deducted from \$565,537.44 leaves \$435,463.83. Secondly, from this figure must be deducted the loss in revenue suffered from removals which is reflected in Commission's accountants' profit and loss account.

The actual removals, as shown by the company's books, due to duplication and included in the 2,623 aforementioned, are as follows:

	<i>Stations Removed</i>	<i>Loss in Monthly Revenue</i>	<i>Loss Reflected in Commission's Ac- countants' Report</i>
July	272	\$1,133 50x3	\$3,400 50
August	810	3,275 75x2	6,551 50
September	978	3,183 00x1	3,183 00
			<hr/> \$13,135 00

Deducting this sum from \$435,463.33 leaves the \$422,000, which we have allowed for duplicate removal loss.

In complainant's and interveners' argument, pages 35 to 37, they assume that the company's growth of business absorbed during the nine months' period ended September 30, 1921, the loss due to removal of duplicates, which they indicate to be \$107,820. Their error in arriving at \$107,820 is readily apparent from our foregoing analysis. They have assumed that all these 2,623 duplicates were removed as of January 1, 1921, whereas the actual conditions are

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that the 2,623 considered as to be included in the estimated loss were removed during July, August, September and October. For example, the 415 business telephones, which they are applying as a loss over the entire nine months, were removed as follows: July, 48; August, 153; September, 109; October, 105. The figure actually comparable with their \$107,820 is \$13,135.

Inefficiency in Management Estimated at \$339,508.80:

The item of excess expenses, due to inefficiency cannot be given consideration in this proceeding, as the evidence indicates that Mr. McShane, in making his comparisons, did not give consideration to, or was unacquainted with, the different working conditions, obtaining in the periods upon which he made his comparisons on the dissimilarity of the physical plants compared.

Toll and Exchange Apportionment:

With reference to the toll apportionments, the Commission's accountants, in making their apportionments, considered toll service as applying from switchboard-to-switchboard. Mr. McShane held to the theory that such service applies from station-to-station. This is a much mooted question and both theories have their adherents. The Commission has ordered an inventory of this company's property and it is its intention to make an appraisal and complete audit of the defendant's properties after the unification is consummated, at which time it will fix a value for rate-making purposes, establish commensurate rates and give consideration to the question of toll apportionment. The present value is only tentative and the rates herein established are only temporary and for that reason, as well as others, the Commission does not at this time intend to pass judgment upon the relative merits of the two toll apportionment theories. The total loss on toll business, as shown by Mr. McShane, for the nine months, projected to an annual equivalent (see complainant's and interveners' brief, page 30), is \$43,347.27. The corresponding figure of the Commission's accountants

shows a profit of \$4,181.25, or a total difference of about \$47,000. This figure, if applied to the Kansas City exchange area valuation of \$16,000,000, would make a difference in the return allowed of approximately one-fourth of one per cent.

It should be made plain that this is nothing else than a temporary case.

The objectives herein to be reached are (a) a continuity of good telephone service to Kansas City; (b) a consummation of the problem of unifying the entire telephone properties that all subscribers may have full and complete unified service; and (c) provide for sufficient new operating revenue to the telephone company, that it may provide the foregoing requirements. We are, by far, more interested in this temporary case in securing the aforementioned needed requirements than we are in consuming time in discussing proffered scientific theories as advanced by either engineers or accountants.

Ever and anon, during the years of progress of regulatory work, various engineers and accountants have been, and are now, advancing some new found theory to guide the Commission in arriving at legal fair value of the property and proper allocation of operating income and outgo. Many thereof have been found, not only interesting for study, but as well useful in arriving at results. But the fact should not be lost sight of that at the best, such views are entitled to no better legal characterization than to be denominated as opinionated evidence, for the usual circumstances is for no two of them to fully agree.

The underlying spirit and intent of the law creating our Commission is that it shall be a practical body, rendering prompt and practical relief where warranted by law and facts. A permanent rate base case is soon to follow this decision, and the purpose of our findings in this case is to protect telephone service to the patron and hasten to consummate the unification of service, pending final determination of the permanent rate base case. Looking to that end, we have resolved many doubts in this case

against the utility, and in favor of the public users of the service. The utility claims several millions of dollars above the temporary base of \$16,000,000 that we assume herein. Moreover, we have diminished its rate schedule and operating revenue as prayed for by it in its pleadings. But, on the whole, we have tried to furnish only such additional operating revenues as will support enactment of the necessary requirements heretofore recited.

Complainant and interveners in their argument, pages 11 to 14, contend that there is a deficit of \$94,522.54 on toll service accruing to the exchange. This is the result of multiplying originating calls by 3, assuming the same number of incoming calls and multiplying by 2, totaling the results and finding 6,061,980 toll calls per year. Deducting this constructive figure from the total calls per year, and dividing the remainder into the exchange revenue per year, as calculated from Commission's accountants' report, they produce \$0.0165 per call. Then applying this unit to the total constructive toll calls, they find \$100,022.67 as the sum the company should receive for local exchange calls due to toll service. This, they compare with the net profit on toll, viz. \$4,125.10 for nine months, or \$3,500.13 per year, as found by Commission's accountants. It would seem that the argument of complainant and interveners is faulty, for the reason that they are comparing a figure built up from a gross revenue unit to a net revenue result.

Taking up the matter from a practical point of view, as applied to the record in this case, we find two theories advanced. The theory on behalf of the utility was that the toll message as such begins and ends at the toll board and the operations within the exchange up to the toll board in handling such messages are local exchange service; that the subscriber has the privilege of calling the toll board in the same manner as calling his doctor or his grocer, and that they are exactly the same service, the cost of which is covered by the local exchange rate.

The other theory advanced by the city and the interveners is to the effect that the toll message does not begin

and end at the toll board, but at the subscriber's station, and that the cost of the operations within the exchange in handling the toll message between the toll board and the subscriber's station should be charged against toll revenues, and the measurement of this cost should be made on the basis of comparative use between the toll message operations and the local exchange operations. The premise on which this theory is based is that the company is rendering two distinct services, one of which is purely local calls within the exchange for which a flat monthly rate is charged, and the other is a toll message for which a toll charge for each message is made, and on the further premise that every subscriber uses the purely local exchange service and contributes by his monthly rate his proportionate part of the cost of that service, while in reference to toll messages, only a very small per cent. of the subscribers actually use the toll service, and in equity and justice, only those who use the service should contribute to the payment of the expenses thereof.

The Commission's accountants' report and audit of the books of the company, as hereinbefore stated, was made on the basis of the theory advanced by the utility. The auditor's report showed on this basis that as to the Kansas City Long Distance Telephone Company the local company was receiving in payment for the service which it rendered the long distance company \$30,370.19 less than the cost of the service rendered for a period of nine months, or a yearly equivalent of \$40,493.58. This sum was deducted by the accountants from the net profit of the Kansas City area. As to the service rendered the American Telephone and Telegraph Company in handling the toll messages, the accountants found that the American Telephone and Telegraph Company was paying the local company \$34,495.29 more than the service cost the local company for a period of nine months, or an annual equivalent of \$45,991.72. This latter sum was eliminated from the exchange revenues of the company so that neither the profit on the American Telephone and Telegraph Com-

pany's, nor the loss on the Kansas City Long Distance Telephone Company's toll message business was allowed in the revenues and expenses of the local exchange.

Whether the theory advanced by the utility or by the city and interveners, or either of them is the correct theory and the one to be adopted in the future in dealing with the cost of service rendered by the local companies to the long distance companies in handling toll messages, experts and commissions seem to disagree. It is yet an open and mooted question. Courts and commissions in a general way have said that toll companies should pay to the local exchanges at least the cost incurred by the local exchanges for the service rendered in handling the toll messages. In most cases, however, they do not say where this service begins and ends. There are two cases which have come to the attention of the Commission where the specific question has been taken up. The Kansas Commission, in the case of *In re Missouri and Kansas Telephone Company*,* reported in 1918-C, P. U. R. 55, adopted the theory advanced by the city and interveners that the toll message should be considered between the subscriber's station and the toll board, in cases where the company was engaged both in the toll and exchange business. The New York Commission in the case of *Stone et al. v. New York Telephone Company*, reported in 1921-D, P. U. R. 736, rejected the theory adopted by the Kansas Commission and advanced by the city and interveners herein, so that the question seems to be unsettled.

The evidence in this case presented by the city and interveners did not show what property, if any, now used by the local exchange could be eliminated if the handling of toll messages were cut off, except that it clearly appears that there were 571 trunk lines used by the long distance companies exclusively for toll messages. It appears that the toll companies own their own switchboards, and as

* See Commission Leaflet No. 79, p. 162.

† See Commission Leaflet No. 118, p. 920.

far as this record shows, no equipment could be eliminated other than the aforesaid trunk lines if the company should cease handling long distance messages within the exchange. It, therefore, seems doubtful that it would be just and reasonable to charge against toll revenues any maintenance, depreciation and return, or general upkeep of the property, other than possibly on the trunk lines. If the exchange requires practically the same equipment to handle the local calls alone as it requires in handling both local and toll, then it costs the subscriber nothing in the way of maintenance, depreciation and return on the property by having the exchange handle the toll messages. On the other hand, it may be assumed that the toll connection is of some value to the subscriber regardless of the use he may make of it. He is, therefore, receiving some benefit without cost in this particular. As to the trunk lines which are assigned exclusively to toll, there is considerable force to the argument that the expense of maintenance, depreciation and upkeep, together with the return on the value of these trunk lines, should be charged to toll revenue. It is apparent, also, from the record in this case that the company incurs some additional expense in the traffic department by handling toll messages. It necessarily requires a few more operators, and, in connection therewith, increases the cost of supervision of operators and all of the other items that are in the traffic account.

To determine this additional cost one might fairly assume that the ratio which the total number of operations in handling the toll messages bears to the total number of operations in handling the purely local exchange calls, would be a reasonably correct means of measuring the cost. The city and interveners in their brief, pages 11 to 14, have made a calculation of the total number of operations, both local and toll, and the total number of operations in handling toll. As a basis of making this calculation, they have assumed that it requires three operations for each originating toll message, and two operations for each incoming toll message, and have assumed further that

the number of originating and incoming messages is the same. On this basis, they calculated that there are 6,061,980 toll message operations per annum. The total operations, both local and toll, they find from McShane's Exhibit No. 1, to be 294,017,355. If these calculations are reasonably correct in theory and in fact, we find that the toll message operation is 2.06 per cent. of the total operations. The accountants' Exhibit No. 1, Statement No. 6, shows a total expense in the traffic account of \$1,233,704.70, chargeable to the Kansas City exchange area, covering a period of nine months or a yearly equivalent of \$1,644,939.60. Two and six one hundredths per cent. of this sum is \$33,885.69, which might be estimated as being the cost incurred by the local company in the manual handling of the toll messages and not taken into account by the auditor's report.

We may calculate what the maintenance, depreciation and return is on the 571 trunk lines used by the toll companies, or what their fair rental would be, by using the exhibit furnished by the utility and requested by the city showing the rental on the basis of the company's rate schedule for extra mileage on foreign exchange trunks, which rate applies to any subscriber who desires to have such a trunk line. The rate which the company has been charging is 83 $\frac{1}{3}$ cents per quarter mile for excess mileage. The company has made a calculation showing that on this basis it would be entitled to receive from the Southwestern Bell Telephone Company for 378 trunk lines the sum of \$2,202.72 per month, or an annual equivalent of \$26,432.64. Dividing the total annual rental by the number of trunks, we find that the average rental per trunk, per annum, would be \$69.92. There is a total of 571 trunks used by both the Southwestern Bell Telephone Company and the Kansas City Long Distance Telephone Company, and assuming that the same rental would apply to those used by the Kansas City Long Distance Telephone Company as to those used by the Southwestern Bell Telephone Company we can arrive at the total annual rental for all of

the trunk lines by multiplying the 571 trunks by the annual rental per trunk. Making the calculation, we have \$39,924.32. If we can assume that 83 $\frac{1}{3}$ cents per month, per quarter mile, is a fair rental to cover maintenance, depreciation, upkeep and return on the trunk lines, then the sum of \$39,924.32 would represent the annual rental which the company might be entitled to if the theory contended for by the city is correct. That is, that the toll message must be followed to the subscriber's station and not end at the switchboard. If we add \$33,885.69 calculated as a possible additional cost in the traffic account incurred by the company in handling the toll message, and the \$39,924.32 which is calculated as a possible cost of maintenance, depreciation and return on the trunk lines, we have a total of \$73,810.01. It would seem that the above is about as far as the city's contention carries force considering the record in this case, and then only on the basis that the contentions made by the city are correct in theory. The items of toll board expense, billing, collecting and accounting in reference to the toll messages have been deducted from the operating expenses of the exchange in the accountants' report and agreed to by the company. If we now apply the \$45,991.72, which the accountants' report shows as profit on the American Telephone and Telegraph Company's business, towards the liquidation of this calculated cost of \$73,810.01 for handling the total toll business and not appearing in the calculations of the Commission's accountants' report, we will have a deficit of \$27,818.29.

The Commission does not take the position that this calculation is correct, nor does it take the position that the theory on which it is based is correct. It does seem to the Commission that the conflicting theories advanced in this case constitute an open and doubtful question; that the company has not introduced evidence in this case advising the Commission of the facts in sufficient detail as to the cost of handling the toll business and in reference to its position that the toll message stops at the switchboard, to establish

its contention therein, nor has it cited court or commission decisions showing that this question has been decided and settled, and since any increase granted the company in this case involves the setting aside of the contract rate, it seems to the Commission that a question that is in as much doubt as the question herein involved, should be taken in favor of the city as to the practical results. It would seem, therefore, that the Commission is entirely justified in adding to the exchange revenues of the company as indicated on Commission's Exhibit No. 1, Statement No. 6, the amount of profit derived from the American Telephone and Telegraph Company's contract which is \$45,991.72 per annum, and deducting from the exchange expenses \$27,818.29 as a further deficit incurred by the company in handling the toll business, which addition to revenues and deduction from expenses makes a total of \$73,810.01, the total cost within the exchange of the toll messages as hereinbefore calculated. When the Commission's expert department shall have had an opportunity to make a detailed study of this question, and after getting all the necessary facts and details for a proper determination of the theories claimed in this case, the Commission can undertake to pass upon this question. In the meantime, the court decisions may throw light on the subject. On the basis of the calculation made herein, it appears that the contract with the American Telephone and Telegraph Company is not subject to the charge as being grossly unreasonable. However, it does appear that the Kansas City Long Distance Telephone Company's contract should be revised by the company, which it can readily do in that it owns all the stock of the company.

Summarizing, the net result of the foregoing adjustments is as follows:

Profit from operations (exclusive of depreciation) as
shown by Commission's accountants' Exhibit No. 1,
Sheet No. 6, projected to an annual equivalent, is..... \$1,431,414 60

Less:

Repairs — receivers, transmitters and induction coils	\$13,625 91
Return and depreciation — receivers and transmitters	55,771 15
Rate case expenses.....	1,236 03
Operators' wages, initial rate.....	1,853 93
Loss, account duplicate removals.....	422,000 00

\$494,487 02

Deduct floor space rental....	\$1,318 88
Toll adjustment	73,810 01

75,128 89

\$419,358 13

ADJUSTED NET PROFIT ON OPERATIONS..... \$1,012,056 47

Insufficiency of Adjusted Net Profit from Operations:

On the tentative valuation of \$16,000,000, a composite 12½ per cent. for depreciation and return would indicate a necessary net annual amount available for depreciation and return of \$2,000,000. Deducting from this figure the adjusted net profit from operations, as shown hereinbefore, of \$1,012,056.47, would indicate a necessary annual increase of \$987,943.53.

But, as the city assesses a tax of 2 per cent. on the gross revenue, it becomes imperative that we increase the above amount by a sum sufficient to cover the 2 per cent. tax on such increase and still leave the \$987,943.53. Such additional increase to cover said tax we find to be \$20,162.11, or a necessary gross annual increase in revenue of \$1,008,105.64.

(d) Rates:

Defendant filed a classified statement of its stations and the calculated revenue, which the rates proposed in its P. S. C. Mo. No. 7 would accrue. This schedule shows an estimated increase in annual revenues from proposed rates over that received from its present rates of \$1,484,957.40. This sum is \$476,851.76 in excess of the \$1,008,105.64 increase which we find to be justified.

The basic rates included in said filed statement are as follows:

	<i>Number of Stations</i>	<i>Present Rate Per Month</i>	<i>Proposed Rate Per Month</i>
Individual line, business.....	10,353	\$8 00	\$12 50
Individual line, residence.....	36,013	3 50	4 50
Two-party line, residence.....	6,718	3 00	3 75
Four-party line, residence.....	4,605	2 50	3 00

Reducing the proposed rates to those shown below, would reduce the estimated increased revenues as follows:

	<i>Per Month</i>	<i>Reduced Revenue</i>
Individual line, business.....	\$11 00	\$186,354 00
Individual line, residence.....	4 00	216,078 00
Two-party line, residence.....	3 25	40,308 00
Four-party line, residence.....	2 75	13,815 00
TOTAL ANNUAL REDUCTION.....		\$456,555 00

A comparison of the above reduced proposed rates with the present rates of the Southwestern Bell Telephone Company in the city of St. Louis, follows:

	<i>Kansas City Area</i>	<i>St. Louis</i>
Individual line, business.....	\$11 00	\$13 00
Individual line, residence.....	4 00	4 50
Two-party line, residence.....	3 25	3 75
Four-party line, residence.....	2 75	3 00

The Bell company in St. Louis has approximately 85,000 stations, as compared with the 98,200 in the Kansas City area. Furthermore, the Southwestern Bell company in St. Louis has to meet keen competition from the Kinloch Telephone Company.

With the above reduction in the four basic rates and subject to qualification hereinafter set out, we believe the defendant's schedule, known as P. S. C. Mo. No. 7, is a fair and proper schedule and should be permitted to be filed when the following qualifications are met.

(e) *Effective Date of New Schedule:*

One of the principal reasons for permitting the new schedule of rates is to provide for a complete unified telephone service for Kansas City. We wish to be plainly understood that we will not permit the utility to enjoy any new rates until the telephone service is completely unified. Therefore, the effective date of the new schedule will be as of February 1, 1922, *provided, however*, that the telephone company file proof with the Commission before said February 1, 1922, showing that said unification has been completed.

ORDER.

This case being at issue upon complaint and answer on file, and having been duly heard and submitted by the parties, and full investigation of matters and things involved having been had, and the Commission having on the date hereof made and filed its report containing its findings of fact and conclusions thereon, which said report is hereby made a part hereof;

Now, upon the evidence in this case, and after due deliberation,

It is ordered, 1. That the rates and charges proposed by the company in its Schedule P. S. C. Mo. No. 7, Local Exchange Tariff, Kansas City Telephone Company, Kansas City, Missouri, are unjust, unreasonable and excessive, and are hereby cancelled.

Ordered, 2. That the Kansas City Telephone Company be, and it is hereby, permitted to file its proposed Schedule P. S. C. Mo. No. 7, after modifying same as follows:

(a) Business, individual line, to be reduced from \$12.50 as proposed to \$11.00.

(b) Residence, individual line, to be reduced from \$4.50 as proposed to \$4.00.

(c) Residence, two-party, to be reduced from \$3.75 as proposed to \$3.25.

(d) Residence, four-party line, to be reduced from \$3.00 as proposed to \$2.75.

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Ordered, 3. That the Commission fully retain jurisdiction of the parties and subject-matter of this cause upon the evidence now before the Commission, together with such other evidence as may be offered therein for the purpose of making any modification of this order, or supplemental orders herein, at any time that it may deem just and proper.

Ordered, 4. That the effective date of the rates authorized herein is February 1, 1922, *provided, however*, that the Kansas City Telephone Company file proof with the Commission before said February 1, 1922, showing that the unification of telephone service has been completed.

Ordered, 5. That the secretary of the Commission shall forthwith serve a certified copy of the report and order herein on each of the parties in this case, and that the Kansas City Telephone Company be, and it is hereby, required to notify this Commission in the manner required by Section 25 of the Public Service Commission Law, within ten days after receipt of a certified copy of this order and report filed herein, whether the terms are accepted and will be obeyed.

December 14, 1921.

NEBRASKA.

State Railway Commission.

In re APPLICATION OF THE ANTELOPE COUNTY MUTUAL TELEPHONE COMPANY FOR AUTHORITY TO INCREASE RATES.

Application No. 3984.

Decided November 1, 1921.

Existing Rates Continued in Effect on Condition.

SUPPLEMENTAL FINDINGS.

Rates prescribed by the Commission on December 3, 1919,* for a temporary period were renewed subsequently for a period ending November 1, 1921.† The new rates represented a slight increase over those in effect prior to the effective date of the original order.*

As related in previous reports, the company was started as a mutual organization and for many years lacked an efficient central management. The plant was in a deplorable condition and certain improvements were required by the Commission before increased rates were allowed. These improvements were made, in part at least, and our understanding is that the service has been materially improved. The company has failed signally, however, in one requirement imposed by the Commission, viz.: the keeping of its accounts under the system prescribed by us. It is impossible, therefore, to determine accurately the company's present financial status. The annual report for 1920 showed that it had total operating revenue from all sources of \$6,756.65 with total operating expense of \$6,936.96, leaving a deficit of \$180.31 to which should be added

* See Commission Leaflet No. 100, p. 1492.

† See Commission Leaflet No. 109, p. 1416.

taxes and accrued interest of \$174.90, making the total deficit \$355.21.

It is manifest that the present rates are not excessive and that they should be continued if the company is to improve its service and its plant. An order to this effect will be issued, therefore, subject to the condition that the rates now in effect shall be reduced to the old basis unless the company agrees in writing to make arrangements for installing and keeping correctly the Commission's system of accounts. Sufficient money is being paid for collecting and bookkeeping at the present time to pay for a proper system of accounting.

SUPPLEMENTAL ORDER.

It is, therefore, ordered, That the rates approved for the Antelope County Mutual Telephone Company in the original order* in this case be extended from November 1, 1921, to November 1, 1922, subject to the condition that within ninety days from the date of this order the company file a written statement, over the signature of its directors, to the effect that it will install and attempt to keep a system of accounting that meets with the requirements of the Commission. Upon failure of the company to file such a statement the rates as approved herein shall be cancelled and the rates as they were effective on December 1, 1919, shall be again made effective.

Made and entered at Lincoln, Nebraska, this first day of November, 1921.

* See Commission Leaflet No. 100, p. 1492.

In re APPLICATION OF THE LINCOLN TELEPHONE AND TELEGRAPH COMPANY FOR AUTHORITY TO MAKE CERTAIN CHANGES IN RATES AT BRUNING.

Application No. 4582.

Decided November 8, 1921.

Increase in Rates Authorized.

FINDINGS.

The Lincoln Telephone and Telegraph Company operates an exchange at Bruning, Nebraska, as a part of its Nebraska properties. It has at Bruning at this time a total of 260 subscribers, business, residence and farm. The major portion are served by a metallic circuit.

The Lincoln company acquired this property through the purchase of an existing independent company, which had operated a plant at Bruning and surrounding territory for a number of years. The independent company had, like many other telephone companies, failed to build up a depreciation fund to take care of the rebuilding of its plant when it became obsolete. The plant was at the time of purchase in run-down condition, not giving the subscribers at all times satisfactory service. The Lincoln company, after acquiring the plant, put on an extensive campaign of improvements and betterments, bringing the service and the capacity of the plant up to the requirements of the community. In this connection the books of the company show that old property having an original value of \$1,084.46 was replaced by new materials representing a value of \$1,703.04 during the period from the time when the plant was purchased to July 31, 1921. This transaction resulted in an increase of the net value of the plant in the amount of \$1,721.09, which is a monetary measure of the improvements in service that the subscribers are now enjoying. No portion of this amount has been charged against the revenues at this exchange, but the total has been advanced from the general funds of the Lincoln com-

pany. This represents the proper and usual procedure, and reference is made to the matter only because a misconception often prevails regarding the method of handling rebuilding programs on the books of the Lincoln company.

It developed at a hearing by the Commission at Bruning on September 22, 1921, that the service now being maintained by the Lincoln company at Bruning is good and the company is amply provided with facilities to extend service to all parties in the community desiring same; also, that its helpers at Bruning are efficient and willing to cooperate with the subscribers in an effort to maintain a first-class telephone service at all times.

The Lincoln company, after an experimental period with the rates as handed down to it by the independent company, viz.:

	<i>Per Month</i>
One-party line, business.....	\$2 00
One-party line, residence.....	1 00
Farm	1 25

found that they did not produce revenue sufficient to provide the service demanded at this point. The Lincoln company prepared from its books and accounts an exhibit, which was explained, under oath, by the general manager of the company, Mr. Mattison, making it a part of the record in this investigation, with the following discoveries, based on one year's operation — August 1, 1920, to July 31, 1921. Under this showing the total revenue for the year was \$4,561.70 and the total expense of operation during the same year was \$6,272.69, leaving the earnings short \$1,710.99, without providing interest on investment, which interest is the real stimulant for the operation of the company's plant. The question was asked by a subscriber if it were fair to take the year in question as a basis for an average year's expense as it covered the period of reconstruction of the plant by the Lincoln company. This was answered by a witness for the company by explaining that

the extensions and rebuilding part of an expense of this nature was necessarily capitalized and paid for from moneys received from that source, and not paid for from the rentals of that period, and that the forecast as set up would be a fair sample of the expenses and receipts over a period of years. The Lincoln company made application to this Commission asking for privilege to publish and collect at this station rates that would more nearly produce revenue sufficient to maintain good service and pay interest on the investment, as follows:

	<i>Per Month</i>
One-party line, business.....	\$2 75
One-party line, residence.....	1 50
Farm	1 50

These rates applied to the exchange with the present number of subscribers, would produce additional revenue of \$1,179 per year, which would still leave the earnings short \$531.99, not providing for interest on the investment. The question was asked of the witness for the company why they did not ask for a rate that would provide revenue sufficient and was answered by the general manager of the company by saying that the rates asked for in this application were the same rates as used at plants of corresponding size in the surrounding territory and villages and that they did not seek to discriminate against the subscribers of this exchange by asking for larger rates. Witness also testified that it was his opinion that material and labor would be somewhat reduced in the near future and by this and other economies, which they hoped to install, they might be able to furnish satisfactory service at Bruning with the schedule asked for. The figures and statements, as testified to by the witness for the Lincoln company in this history, are entirely in accord with the figures and monthly reports furnished the accounting department of this Commission. Furthermore, a careful examination of the exhibits by the accounting department of the Commission indicates that they are mathematically correct, and

that the portions of general expense of the Lincoln company allocated to this exchange have been properly computed. In making this examination a comparison of operating expenses at this point with the general operating expenses of the entire Lincoln system for the same period was made, disclosing the following important fact:

	<i>Lincoln System</i>	<i>Bruning Exchange</i>
Total average monthly operating expense, per station	\$2.404	\$1.861

It follows that the exhibits submitted have not been unduly padded, and that the expenses at the Bruning exchange are conservative when compared with the system's expenses. We are quite inclined to credit the Lincoln company with a genuine willingness to assume its full share of the loss at this point against the time when the rates can be adjusted without affecting the subscribers, as it would at the present time.

ORDER.

It is, therefore, ordered by the Nebraska State Railway Commission, That the Lincoln Telephone and Telegraph Company be, and it hereby is, authorized to publish and collect the following schedule of rates to apply at their station at Bruning, Nebraska:

	<i>Net</i>	<i>Gross</i>
Business, one-party	\$2 75	\$3 00
Business extension	1 00	1 25
Residence, one-party	1 50	1 75
Farm, metallic	1 50	1 75

The business and residence rates to be effective on and after December 1, 1921; the farm rate to be effective on and after January 1, 1922.

The net rate to apply when payment is made during the first ten days of the current month; when collections are made for a period of more than one month in advance then the net rate to apply when payment is made any time during the first month of said period.

Made and entered at Lincoln, Nebraska, this eighth day of November, 1921.*

In re APPLICATION OF THE KILGORE TELEPHONE COMPANY FOR
VALIDATION OF CERTAIN RATES.

Application No. 4607.

Decided November 22, 1921.

Rates Placed in Effect Without Authority Validated.

FINDINGS.

The application is presented by the Kilgore Telephone Company, H. M. Bishop, owner and manager, requesting validation of certain of its rates improperly published. The Kilgore company was purchased by Mr. Bishop last July, at which time, being unfamiliar with legal requirements, he established a schedule of rates for certain service similar to the rates collected at adjoining exchanges operating under similar conditions, without proper authority of this Commission.

The exchange is a tiny one supplying switching service to a small number of farm lines, and exchange service to 10 business telephones and 5 residence telephones. The rates which the company request validated are as follows:

Individual business, gross	\$3 50
Individual business, net.....	3 25
Individual residence, gross	2 25
Individual residence, net	2 00

The gross rate is to be collected if service is not paid for on or before the tenth day of the current month.

Twenty-four hour service is furnished by the company. An estimate of monthly expenses of the company is supplied as follows:

* Similar orders were entered granting increased rates to the *Lincoln Telephone and Telegraph Company* at the following exchanges: On November 14, 1921, at Jansen (No. 4587); on November 15, 1921, at Deweese (No. 4583), at Steele City (No. 4584), and at Gilead (No. 4585).

In re APPLICATION OF KILGORE TELEPHONE CO. 411

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Operator	\$54 00
Rent	10 00
Line work and supplies	15 00
Power and lights	4 00
Interest and taxes	10 50
<hr/>	
TOTAL	\$93 50

It is apparent that certain of the expenditures above enumerated are not regular monthly expenses which the company must meet. However, the Commission is convinced that revenues produced under the rates as requested will not exceed the needs of the company; in fact, the Commission very seriously doubts as to the sufficiency of revenue produced.

The rate schedule will be validated, but the Commission warns the company at this time that more drastic action will be taken if the company, in the future, does not more carefully heed the provisions of the law requiring authority from the Commission before rate changes are made.

ORDER.

It is, therefore, ordered by the Nebraska State Railway Commission, That the following schedule of rates, applied by the Kilgore Telephone Company originally without proper authority from this Commission, be, and the same is hereby, validated:

Individual business, gross	\$3 50
Individual business, net	3 25
Individual residence, gross	2 25
Individual residence, net	2 00

The gross rate shall be collected by applicant company where rental charges are not paid on or before the tenth day of the current month.

It is further ordered, That the company be authorized and directed to publish and collect a charge of 25 cents extra per subscriber, per month, for desk telephones.

Made and entered at Lincoln, Nebraska, this twenty-second day of November, 1921.

In re APPLICATION OF THE NUCKOLLS COUNTY INDEPENDENT
TELEPHONE COMPANY FOR AUTHORITY TO INCREASE
RATES.

Application No. 4065.

Decided December 1, 1921.

Former Authorized Rates Continued in Effect.

SECOND SUPPLEMENTAL FINDINGS.

This applicant's rates were first adjusted as of February 1, 1920.* The solution of the problem there presented by the Commission was inadequate and on rehearing the Commission issued another order† further readjusting the rates, effective May 1, 1921. This latter order was for a temporary period which has once been extended.‡ The company has now asked for a continuation of the present schedule for a period subsequent to the termination date, December 1, 1921. The rates being charged by this company are relatively modest. They were temporary rates chiefly because the Commission desired to keep in touch with the development of a reconstruction program which called for certain refinancing. One of the conditions of the original order* on rehearing was that the company might issue certain stock dividend in lieu of deferred dividends invested in the plant, but that each share of stock paid out as a dividend should require from the owner of the equity in the share \$6.00 in cash to complete the transaction.

The records of the company as of September 30, 1921, show that the outstanding capital has been increased by \$10,940 which increase could only take place coincident with the receipt of cash as new capital. The records indicate that the money received from the sale of securities has been and is being used for the betterment of the properties, particularly rehabilitation. It is apparent that the company is making an effort to increase the amount of

* See Commission Leaflet No. 101, p. 1911.

† See Commission Leaflet No. 116, p. 122.

‡ Noted in Commission Leaflet No. 119, p. 1178.

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capital through the sale of stock for cash in order that the properties may be rehabilitated into first-class working condition. With the earnestness of the effort we do not complain.

The record for five months, from May 1 to September 30, indicates that the company has used practically all the maintenance and depreciation reserve earned during that period. This indicates a rehabilitation program to a certain degree from current revenues. Traffic expenses have been slightly less than the Commission estimated was necessary. The company has not yet hired a manager, in anticipation of which an allowance was made in figuring necessary expenditures of \$75.00 per month. This money is accumulating.

The net result of five months' operation under these temporary rates shows that the company has not deferred any maintenance currently accruing; that it has earned its dividends and passed to surplus approximately \$125 per month.

From much investigation we know that this company is operating with high economy. If there can be any criticism at all it is that economy has been allowed to interfere to a certain degree with excellence of service. There is nothing in the showing for the five months which warrants any other conclusion than that the present rate scale shall be continued.

However, through practices which grew up during the development of the system of applicant, has come a general impression that rehabilitation and extensions are properly to be paid for from revenues. It has been rather difficult to get the officers of the company to see that such a program continued may be unfair to subscribers. No serious damage, if any, has been done to the subscribers thus far, but the Commission has carefully attempted to guard against an improvement program to be made out of any other revenues than new capital and possibly unused depreciation reserves. There is accruing a small

surplus under the present rates. The company will permit this surplus to continue to accrue as it may during the life of this order and shall invest such surplus, both that which has accrued since May 1, 1921, and that which may accrue during the life of this extension, only in liquid assets. This order will extend until July 1, 1922, at which time disposition will be made, in conference with the company's officers, of any surplus which may have accrued to that date.

ORDER.

It is, therefore, ordered by the Nebraska State Railway Commission, That the Nuckolls County Independent Telephone Company be, and it is hereby, authorized to continue to charge and collect the present scale of telephone rates until midnight June 30, 1922, unless prior thereto other action is taken by the Commission.

It is further ordered, That the company shall make report as of December 1, and monthly thereafter, during the life of this extended order, or until this refinancing is completed, as to the disposition of the stock dividend authorized in the original order herein and as to the receipts and disbursements of cash equities received from the sale or distribution of stock in accordance with the terms of the order.*

Made and entered at Lincoln, Nebraska, this first day of December, 1921.†

* See Commission Leaflet No. 101, p. 1911.

† On December 6, 1921, increased switching rates were authorized, *In re Cortland Telephone Company* (No. 3811).

NEW YORK.

Public Service Commission.

In re PETITION OF THE GLEN TELEPHONE COMPANY FOR
AUTHORITY TO ISSUE CAPITAL STOCK.

Case No. 307.

Decided September 7, 1921.

Issue of Stock Authorized.

ORDER.

Now, therefore, upon the foregoing record,*

It is ordered as follows: 1. That the Glen Telephone Company is hereby authorized to issue \$100,000, par value, of its common capital stock, which may be sold at a price not less than the par value thereof to realize net proceeds of at least \$100,000.

2. That the proceeds of said stock so authorized, which shall be not less than \$100,000, shall be used solely and exclusively for the following purposes:

(a) To pay short term 6 per cent. notes as detailed in Schedule 1 of the petition.....	\$55,000 00
(b) To reimburse the treasury of said Glen Telephone Company for moneys actually expended out of income for betterments, additions and extensions for the period from July 1, 1917 to July 1, 1921.....	45,000 00
	<hr/>
	\$100,000 00

3. That the Glen Telephone Company shall for each six-months' period ending June 30 and December 31, file not more than thirty days from the end of such period a verified report which shall show:

* Omitted.

- (a) What stock has been sold during such period.
- (b) The dates of such sales.
- (c) To whom such stock was sold.
- (d) What proceeds were realized from such sales.
- (e) Any other terms and conditions of such transactions.
- (f) With respect to Subdivision (a) of Clause No. 2 of this order, there shall be shown in detail the amount of the proceeds of the stock herein authorized to be issued, which has been expended during such period for the purpose specified therein.
- (g) With respect to Subdivision (b) of Clause No. 2 of this order, there shall be shown the amount of stock proceeds used therefor during such period.

Such reports shall continue to be filed until all of said stock shall have been sold and the proceeds expended in accordance with the authority contained herein, and if during any period no stock was sold or proceeds expended, the report shall set forth such fact.

4. That this proceeding is hereby continued upon the records of the Commission until the examination which is now being made of the books, accounts and property of the petitioner herein shall have been concluded and the corrections, if any, which by reason of such examination this Commission shall determine to be proper and necessary shall have been made, accepted by the company and entered in the accounts of said company to the satisfaction of the Commission.

5. That the authority contained in this order to issue stock is upon the express condition that the petitioner accepts and agrees to comply in good faith with the provisions hereof and before any stock is issued pursuant hereto and within thirty days of the service hereof the company shall advise the Commission whether or not it accepts the same with all its terms and conditions, and such order shall be of no force or effect until such acceptance has been filed.

Finally, it is determined and stated, That in the opinion of the Commission the money to be procured by the issue of said stock herein authorized is reasonably required for

the purposes specified in this order and that such purposes are not in whole or in part reasonably chargeable to operating expenses or to income.

September 7, 1921.

WALTER R. STONE, AS MAYOR OF THE CITY OF SYRACUSE v.
NEW YORK TELEPHONE COMPANY.

Case No. 7178.

HARRY H. FARMER, AS MAYOR OF THE CITY OF SYRACUSE, v.
NEW YORK TELEPHONE COMPANY.

Case No. 7770.

Decided November 30, 1921.

Application for Rehearing Denied.

MEMORANDUM.

The application of the city of Syracuse states ten grounds for a rehearing of these cases. All ten allegations are to the effect that the Commission committed errors of law in arriving at the conclusions and order* made in these cases.

The application does not state, and in the oral argument no offer was made, of any new evidence. The application in effect asks the Commission to reconsider matters which have been pending before the Commission since November, 1919, to go over the old testimony and possibly arrive at a different conclusion, and make a new order.

It might be well to state definitely that in the memorandum embodying the conclusions reached in the Syracuse case, all matters covered by the evidence were considered and practically all were discussed. The case was of great importance. It had taken a long time to try and had cost large sums of money.

* See Commission Leaflet No. 118, p. 920.

It has been tried on the theory that the evidence submitted, and the results arrived at would be of great benefit in the decision of more than one hundred other telephone rate cases then pending before the Commission.

For this reason all the evidence presented, the numerous exhibits and documents of either side, the able opinions of the experts employed by the city, and those employed by the company were given careful consideration, and in arriving at a decision it was distinctly understood that the case had been tried and submitted upon the local area or segregated district theory, and therefore the decision and order were squarely based upon the evidence submitted relating to the Syracuse local area.

It plainly appeared that, even if the book cost alone of the company's property in the Syracuse local area, as estimated by Dr. Maltbie, the expert employed by the city, were taken, and the depreciation reserve estimated by Dr. Maltbie were deducted, and the actual amounts received in 1920 and paid out in 1920 by the company were computed, the net revenue was much less than what has been considered by the courts to be a fair return.

This was true even if the item of annual depreciation of the property was cut to 4 per cent., and the payment to the American Telephone and Telegraph Company, under licensee agreements, were reduced to 75 cents per station.

Further, if the expenses estimated by the company for 1921 were disregarded, and the 1920 actual payments by the company alone considered, still the company in 1921 would not be earning more than a fair return. Upon these facts the order was based.

But the Commission had been so strongly impressed in its consideration of these cases by the unfair and tremendously expensive method of trying rate cases on this local area theory that certain observations were made in regard to the apparent injustice of the methods. None of these observations were the basis of the order in the cases and cannot be so regarded.

These expressions of opinion were set forth because the Commission felt that its duty to the patrons of this public utility required that it should point out the great expense and waste of effort manifested in these cases, and the further fact that no real results of value to any other municipality were attained. It was also believed to be the duty of the Commission to call attention to a better, less expensive, or more equitable method, if such method existed.

It is pertinent to state that this Commission has entered upon an investigation of the New York Telephone Company's operations, and that upon such investigation the rates and charges of this company in the city of Syracuse will be thoroughly examined and reviewed.

The ten points raised by the complainant have been carefully considered, no new evidence is offered, and, as has been stated, the effect of this application is to demand a reconsideration of the evidence and arguments, and a reversal of the Commission's decision. This is not a sufficient ground for the reopening of a case in which such an elaborate record has now been made and considered, and upon which so much time and effort has been spent.

It follows that an order should be entered denying the application for rehearing.

ORDER.

An order* having been entered in the above-entitled cases, dismissing the complaints therein, and complainant having thereafter, and on August 19, 1921, made application for rehearing, now after reading and filing said application and due consideration having been had,

It is ordered, that said application for rehearing be, and the same is hereby, denied.

November 30, 1921.

* See Commission Leaflet No. 118, p. 920.

In re PETITION OF THE MOUNTAIN HOME TELEPHONE COMPANY FOR AUTHORITY TO ISSUE BONDS.

Case No. 7522.

Decided November 30, 1921.

Issue of Bonds Authorized.

ORDER.

Now, therefore, upon the foregoing record,*

It is ordered as follows: 1. That the proposed journal entries contained in the final report of the accounting division in this proceeding dated October 31, 1921, which on October 31, 1921, was sent to the corporation, such entries being shown on pages 10 to 12 inclusive thereof, shall be entered upon the books of the Mountain Home Telephone Company, and that within thirty days of the service of this order verified proof that such entries have been made shall be submitted to the Commission.

2. That the Mountain Home Telephone Company is hereby authorized to issue \$300,000, face amount, of its 5 per cent. twenty-five year general mortgage bonds under a certain indenture, deed of trust or mortgage, dated the first day of January, 1913, given to the Columbia Trust Company, New York, as Trustee, to secure an authorized issue of bonds of a total face amount of \$2,000,000.

3. That said bonds of the total face amount of \$300,000 may be sold for not less than 80 per cent. of their face value to realize net proceeds of at least \$240,000.

4. That the proceeds of said bonds so authorized, which shall not be less than \$240,000, shall be used solely and exclusively for the following purposes:

* Omitted.

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(a) For the reimbursement of the treasury of the petitioner for moneys actually expended from income for extensions and improvements made to its plant and property during the period from May 1, 1915, to April 30, 1920, inclusive, as petitioned for, not obtained from the issue of stock, bonds, notes or other evidence of indebtedness of such corporation	\$274,500 00	
(b) To discharge four month 6 per cent. notes in local banks.....	40,500 00	
(c) To pay advances from New York Telephone Company	85,000 00	
		<hr/> \$400,000 00
AMOUNT UNPROVIDED FOR.....		<hr/> \$160,000 00

5. That the Mountain Home Telephone Company is hereby authorized to pledge \$250,000 of the bonds herein authorized to be issued as collateral security for any of its loans provided that the following prohibitions are observed:

- (a) That the principal of such loans for which said bonds are pledged shall in no event be less than 80 per cent. of the face value of the bonds pledged as collateral security therefor.
- (b) That the actual cost of the money to be procured through the issuance of the short-term collateral notes above mentioned shall not be greater than 8 per cent. per annum.

6. That the notes, or the proceeds thereof, for which bonds herein authorized are pledged as collateral security, shall be used solely and exclusively for the purposes for which the bonds or their proceeds were authorized to be used as enumerated herein.

7. That the Mountain Home Telephone Company shall for each six-months' period ending December 31 and June 30, file not more than thirty days from the end of such period a verified report which shall show:

- (a) What bonds have been sold during such period.
- (b) The dates of such sales.
- (c) To whom such bonds were sold.
- (d) What proceeds were realized from such sales.
- (e) Any other terms and conditions of such transactions.
- (f) With respect to Subdivision (a) of Clause No. 4 of this order there shall be shown the amount of bond proceeds used therefor during such period.
- (g) With respect to Subdivisions (b) and (c) of Clause No. 4 of this order there shall be shown in detail the amount of the proceeds of the bonds herein authorized which has been expended during such period for each of the purposes specified herein.

Such reports shall continue to be filed until all of said bonds shall have been sold and the proceeds expended in accordance with the authority contained herein, and if during any period no bonds were sold or proceeds expended, the report shall set forth such fact.

8. That the Mountain Home Telephone Company shall for each six months ending December 31 and June 30, file not more than thirty days from the end of such period a verified report which shall show:

- (a) What, if any, bonds have been pledged during such period.
- (b) The date of such pledging.
- (c) With whom such bonds were pledged.
- (d) The principal, term and interest rate of each loan for which such bonds are pledged.
- (e) The total face value of bonds herein authorized which remain pledged as collateral security for said loans on the closing date of such period.
- (f) Any other terms and conditions of such transactions.
- (g) The amount of such note proceeds expended during such period for each of the purposes specified in this order.

Such reports shall continue to be filed until all of the proceeds of the notes secured as herein authorized shall have been disposed of for the purposes specified in this order.

9. That the authority contained in this order to issue bonds is upon the express condition that the petitioner accepts and agrees to comply in good faith with the pro-

visions hereof, and before any bonds are issued pursuant hereto and within thirty days of the service hereof, the company shall advise the Commission whether or not it accepts the same with all its terms and conditions, and such order shall be of no force or effect until such acceptance has been filed.

Finally, it is determined and stated, That in the opinion of the Commission the money to be procured by the issue of said bonds herein authorized is reasonably required for the purposes specified in this order and that such purposes are not in whole or in part reasonably chargeable to operating expenses or to income.

November 30, 1921.

In re PETITION OF NEW YORK TELEPHONE COMPANY FOR
AUTHORITY TO ISSUE \$38,692,000 OF ITS CAPITAL STOCK.

Case No. 78.

Decided December 14, 1921.

Issue of Capital Stock Authorized.

ORDER.

Now, therefore, upon the foregoing record,*

It is ordered as follows: 1. That the New York Telephone Company is hereby authorized to issue \$38,692,000, par value, of its common capital stock.

2. That the said stock so authorized, which shall not be less than a par value of \$38,692,000, shall be delivered to the American Telephone and Telegraph Company in payment of demand notes, the proceeds of which were used for the acquisition of fixed assets to the amount of \$38,692,000.

*Omitted.

3. That the New York Telephone Company shall for each six-months' period ending December 31 and June 30, file not more than thirty days from the end of such period a verified report which shall show:

- (a) What stock has been delivered during such period.
- (b) The dates of such deliveries.
- (c) To whom such stock was delivered.
- (d) Any other terms and conditions of such transactions.
- (e) In detail the amount of stock herein authorized which has been used during such period for the purpose specified herein.

Such reports shall continue to be filed until all of said stock shall have been delivered in accordance with the authority contained herein, and if during any period no stock was issued or delivered, the report shall set forth such fact.

4. That the authority contained in this order to issue stock is upon the express condition that the petitioner accepts and agrees to comply in good faith with the provisions hereof, and before any stock is issued pursuant hereto and within thirty days of the service hereof, the company shall advise the Commission whether or not it accepts the same with all its terms and conditions, and such order shall be of no force or effect until such acceptance has been filed.

Finally, it is determined and stated, That in the opinion of the Commission the stock herein authorized is reasonably required for the purpose specified in this order and that such purpose is not in whole or in part reasonably chargeable to operating expenses or to income.

December 14, 1921.

In re PETITION OF THE OSWEGO COUNTY INDEPENDENT TELEPHONE COMPANY FOR AUTHORITY TO ISSUE BONDS.

Case No. 6312.

Decided December 14, 1921.

Issue of Bonds Authorized.

ORDER.

Now, therefore, upon the foregoing record,*

It is ordered as follows: 1. That the proposed journal entries contained in the report of the accounting division in this proceeding dated December 9, 1921, a copy of which shall be served upon the corporation, such entries being shown on pages 9, 10 and 11 thereof, shall be entered upon the books of the Oswego County Independent Telephone Company, and that within thirty days of the service of this order verified proof that such entries have been made shall be submitted to the Commission.

2. That the Oswego County Independent Telephone Company is hereby authorized to issue \$6,000, face amount, of its 5 per cent. thirty year mortgage bonds under a certain indenture, deed of trust or mortgage, dated the thirty-first day of January, 1907, given to the Trust and Deposit Company of Onondaga as Trustee, to secure an authorized issue of bonds of a total face amount of \$500,000.

3. That the proceeds of said bonds so authorized, which shall not be less than \$6,000, shall be used solely and exclusively for the reimbursement of the treasury of the petitioner for moneys actually expended from income for the acquisition of fixed assets during the period from December 31, 1912, and July 31, 1918, inclusive, not obtained from the issue of stock, bonds, notes or other evidence of indebtedness of such corporation.

*Omitted.

4. It is nevertheless expressly provided that in all respects other than as directed in Clause No. 1 hereof, this order shall not be effective, and particularly that no bonds shall be issued or sold hereunder by the applicant, nor shall the issue or sale of any such bonds be deemed to have been approved and authorized by this Commission unless and until compliance with the requirements of said clause shall have been made, reported to and approved as sufficient by this Commission.

5. That the Oswego County Independent Telephone Company shall for each six-months' period ending December 31, and June 30, file not more than thirty days from the end of such period a verified report which shall show:

- (a) What bonds have been sold during such period.
- (b) The dates of such sales.
- (c) To whom such bonds were sold.
- (d) What proceeds were realized from such sales.
- (e) The amount of bond proceeds used during such period for the purpose specified herein.

Such reports shall continue to be filed until all of said bonds shall have been sold and the proceeds used in accordance with the authority contained herein, and if during any period no bonds were sold or proceeds used, the report shall set forth such fact.

6. That the authority contained in this order to issue bonds is upon the express condition that the petitioner accepts and agrees to comply in good faith with the provisions hereof, and before any bonds are issued pursuant hereto and within thirty days of the service hereof the company shall advise the Commission whether or not it accepts the same with all its terms and conditions, and such order shall be of no force or effect until such acceptance has been filed.

7. That none of the said bonds herein authorized shall be hypothecated or pledged as collateral by the Oswego County Independent Telephone Company unless any such

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pledging or hypothecation shall have been expressly approved and authorized by this Commission.

Finally, it is determined and stated, That in the opinion of the Commission the money to be procured by the issue of said bonds herein authorized is reasonably required for the purpose specified in this order and that such purpose is not in whole or in part reasonably chargeable to operating expenses or to income.

December 14, 1921.

NORTH DAKOTA.

Board of Railroad Commissioners.

In re INCREASED RATES OF BUFFALO TELEPHONE EXCHANGE.

Docket No. 1703.

Decided November 4, 1921.

Increase in Rates Authorized.

OPINION AND ORDER.

This action grows out of a filing of certain increased telephone rates under the provisions of Chapter 192, Laws of 1919, which rates became effective April 1, 1921, and in connection with which several protests were made to this Commission by subscribers, causing investigation by the Commission, hearing having been had at Buffalo, North Dakota, June 22, 1921. The rates as filed by the utility were as follows:

	<i>Per Month Net</i>
Business service	\$3 00
Residence and rural service.....	2 50

The Commission was represented by *Frank Milhollan*, president; the Buffalo Telephone Exchange being represented by *Aubrey Lawrence* of Fargo, North Dakota.

The property involved in this proceeding has been in existence for a number of years, being originally constructed and operated by one S. G. More. One of the points stressed by complainants was in connection with certain payments ranging from \$50.00 to \$100 required by Mr. More to secure service. Copies of petitions bearing the amount of such payments and the name of the party paying same indicate clearly that such payments were in the nature of bonuses to secure telephone facilities; that the amount was not for a stock or other ownership

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in the property, nor does the petition indicate a guarantee of any particular rate or rates. Several witnesses testified in regard to these payments and all indicated that they understood the amount to be in the nature of a bonus to secure service.

Mr. More operated the property for five or six years when he sold it to Berg and Gran who operated the property for about ten years, it being again sold in October, 1919, to Chapman and Christensen.

When these last two gentlemen purchased the property, they made a survey of the operating expenses and revenues and decided that it would be necessary to increase their rates. Accordingly, on October 1, 1919, they increased the business rate from \$2.00 to \$3.00 per month and the residence and rural rate from \$1.50 to \$2.50 per month without making an application to this Commission as required by the new utility law of 1919. The Commission received numerous complaints because of these increases in rates, resulting in an investigation being ordered, hearing having been had at Fargo, September 20, 1920, as a result of which the Commission entered a report and decision* December 13, 1920, finding that for the period beginning October 1, 1919, and ending August 1, 1920, the reasonable business rate was \$3.00 per month; the reasonable residence rate \$1.75 per month and the reasonable farm line rate \$2.25 per month, and that due to increase in pay of telephone operators and the item of office rent accruing from and after August 1, 1920, somewhat higher rates were necessary and the Commission established rates effective August 1, 1920, as follows: business, \$3.25 per month; residence, \$2.00 per month and farm line, \$2.25 per month, setting out certain discount rules and rates for service connections, etc.

In the Commission's findings in that case (Docket No. 1602*) the estimated revenues for the year 1920 were

* See Commission Leaflet No. 110, p. 1931.

placed by the Commission at \$6,812 based upon the rates established as of August 1, 1920. In this case it is shown that the actual revenues for 1920 were \$7,475.42. Likewise, the Commission's estimate of operating expense, including depreciation, plus an 8 per cent. return on investment, was \$6,930, whereas the actual operating expense and depreciation with no amount for return amounted to \$7,491. The depreciation was estimated by the utility at 7 per cent. which is higher than is being generally used in North Dakota and higher than has been found reasonable by this Commission. Also, the record shows that considerable rebuilding was necessary in 1920 on account of storm damage, but the depreciation reserve account was charged but \$262.05 and testimony indicates that the rebuilding was largely charged into operating account, amounting to \$600 or more, and the Commission is of the opinion that adjustment should be made in operating expense reducing the amount thereof by \$135 depreciation and \$500 on account of improper accounting of rebuilding storm damaged lines, making the reasonable total operating expense of \$6,866 for 1920, leaving \$609.42 available for taxes, interest and return. Taxes were \$165.13 and interest \$938.32, so that the utility failed to earn its interest requirements by \$494.03.

This utility now operates 40 business, 45 residence and 123 rural stations; 3 business and 2 residence extensions. The rates filed will produce revenue as follows:

Business stations, 40 at \$36.00 per year.....	\$1,440 00
Residence and rural stations, 168 at \$30.00 per year.....	5,040 00
Business extensions, 3 at \$18.00 per year.....	54 00
Residence extensions, 2 at \$12.00 per year.....	24 00
	<hr/>
	\$6,558 00
Estimated toll revenue.....	925 00
	<hr/>
ESTIMATED TOTAL REVENUES.....	\$7,483 00

The testimony clearly indicates that it is unreasonable to expect any material reduction in operating expenses

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during the year 1921. The Commission believes this to be substantially correct. With estimated operating revenues of \$7,483 and estimated operating expense, plus taxes, \$7,031.13, it is clearly apparent that further economies must be made to meet interest payments. The rural lines are metallic and thereby cause a somewhat higher operating expense due to maintenance than obtains with the grounded line construction more generally found in North Dakota, and because of a properly constructed metallic circuit being free from inductive noises often found in using grounded lines, the service itself is of better quality and more valuable to the user therefore. Twenty-four-hour service is furnished to subscribers.

Summing up, the Commission is of the opinion, and finds, that the rates as filed are not unjust or unreasonable under present conditions, but the Commission will retain jurisdiction pending further hearing after 1921 operating figures are available.

Dated at Bismarck, North Dakota, November 4, 1921.

In re FARMERS AND MERCHANTS TELEPHONE COMPANY OF
FLAXTON.

Case No. I-420.

Decided November 7, 1921.

**Service Connection Charges as Proposed Rejected—Company Authorized
to File Service Connection Charges and Charges for Moves
and Changes in Accordance with Rates Previously
Found Reasonable.**

OPINION.

This proceeding originated upon the Commission's own motion as expressed in its order of May 6, 1921, suspending a tariff filed by the Farmers and Merchants Telephone Company, of Flaxton, North Dakota, seeking to establish the following rates:

	<i>Present Rate</i>	<i>Proposed Rate</i>
Service connection	\$3 50	\$3 50
Listing change	1 50	1 00
Installing station	3 50	2 00

Hearing was had pursuant to legal notice at Bismarck, North Dakota, June 15, 1921. The Farmers and Merchants Telephone Company failed to put in an appearance, neither was there any protest by the users, or prospective users of Flaxton. This Commission in Docket Nos. 1554, 1555 and 1589,* decided August 16, 1920, made a very thorough study into the matter of reasonable rates for service connection and fixed for the companies interested the following rates for service connection charges in exchanges similar in size and operating conditions to Flaxton:

Business:

Instrument in place.....	\$1 50
Instrument not in place.....	2 00

Residence:

Instrument in place.....	1 00
Instrument not in place.....	1 50

Charges for Inside Moves and Changes in Type of Equipment:

Moving an instrument within the same room.....	1 00
Moving an instrument from one room to another on the same premises	2 00
Changing type of instrument.....	1 00

There being no evidence in connection with this case to indicate to the Commission any necessity for maintaining a rate higher than those previously found reasonable, the Commission is not disposed to look with favor upon the rates as filed, and the Commission is of the opinion, and finds, that said tariff should be rejected without prejudice to the future filing of rates generally established in the Commission's order* of August 16, 1920.

A suitable order will be issued.

* See Commission Leaflet No. 107, p. 588.

ORDER.

At a regular meeting of the Board of Railroad Commissioners, of the State of North Dakota, held at Bismarck, November 7, 1921, the above matter being at issue upon the filing of a tariff under the provisions of Section 14, Chapter 192, Laws of 1919, seeking to establish rates for service connection, listing change and installing station, and said application having been suspended by order of this Commission on May 6, 1921, and hearing having been had pursuant to law and a report containing findings of fact and conclusions having been prepared, submitted and approved by the Commission, which report is hereby referred to and made a part hereof, and full consideration having been given to all matters and things involved, the Commission is of the opinion, finds, and

It is ordered, That said tariff be, and is hereby, rejected without prejudice to the filing of rates for these services not later than December 1, 1921, identical with those rates found reasonable for service connections, moves and changes in this Commission's order of August 16, 1920, in Docket Nos. 1554, 1555 and 1589.*

Done at Bismarck, North Dakota, this seventh day of November, 1921.

ELDRIDGE RURAL TELEPHONE COMPANY *v.* BENNETT AND
THOM TELEPHONE COMPANY.

Case No. I-486.

Decided November 7, 1921.

**Discontinuance of Service for Failure to Pay Pin Rental Justified —
Claim for Payment of Pin Rental Held Not Within Juris-
diction of Commission — Request to Have Connection
Restored Denied and Case Dismissed.**

OPINION AND ORDER.

On August 9, 1921, a complaint was filed with the Commission by Charles Hidden, secretary of the Eldridge

* See Commission Leaflet No. 107, p. 588.

Rural Telephone Company of Eldridge, North Dakota, alleging that the Bennett and Thom Telephone Company, of Eldridge, had disconnected several telephones of the Eldridge Rural Telephone Company, and that by reason of this action, the subscribers of the Eldridge Rural Telephone Company had no connection in Eldridge where most of the subscribers do their trading, and in order to reach Eldridge, it was necessary for them to get a connection by way of Jamestown. The Commission was asked to take such steps as would be necessary in order that they might have direct connection with Eldridge. Hearings were held in the matter at Jamestown, North Dakota, September 26, 1921, and at Eldridge, November 3, 1921, *Charles Hidden* appearing on behalf of the complainant, and *O. H. Bennett* appearing on behalf of the respondent.

The complainant and respondent companies are both co-partnerships, and they operate a few miles of lines in the territory adjacent to Eldridge and Jamestown, North Dakota. O. H. Bennett, of Jamestown, is president of both companies, and has been since their organization. The Bennett and Thom Telephone Company was organized about 1906, and in addition to extending the line to Eldridge, the company extended their lines to the city limits of Jamestown, from which point their lines run on the poles of The Northwestern Telephone Exchange Company into Jamestown. They pay pin rent to the Northwestern in the sum of 10 cents per contact. The testimony shows that in 1916 the Eldridge Rural Telephone Company was organized. This company operates only about 18 miles of line, the greater portion of which lines are strung on the poles of either the Bennett and Thom Telephone Company or the Northwestern company.

When the Eldridge Rural Telephone Company was organized, it found it could not get connection into Jamestown unless it had five or more telephones, and at that time it had only three. The matter was discussed between members of the two companies, and by verbal agreement the Eldridge Rural Telephone Company was

to be given two of the Bennett and Thom Telephone Company's subscribers. No contract was entered into between the parties, but there was a verbal agreement to the effect that the Eldridge Rural Telephone Company was to pay to the Bennett and Thom Telephone Company pin rent at the same rate that was charged by The Northwestern Telephone Exchange Company. The Eldridge Rural Telephone Company's wires are run into Eldridge on the poles of the Bennett and Thom Telephone Company, for which they are to pay a pin rent of 10 cents, an increase having recently been made from 5 cents to 10 cents.

On January 4, 1921, the Bennett and Thom Telephone Company caused the telephones of the Eldridge Rural Telephone Company to be disconnected from the places of business which they had agreed to give to the Eldridge Rural Telephone Company. As a result of this action, the subscribers of the Eldridge Rural Telephone Company were unable to talk to the business men of Eldridge without first telephoning to Jamestown and getting a connection in a roundabout way.

Considerable testimony was given by both parties to this controversy. Witnesses for the respondent stated that the only reason the lines were disconnected was because of the fact that Charles Hidden, secretary of the Eldridge Rural Telephone Company, refused to pay the pin rent after being billed for same on a number of occasions. The record shows that the Eldridge Rural Telephone Company has never paid any pin rent to the Bennett and Thom Telephone Company since its organization, and that at the time the services were discontinued, the complainant company was indebted to the respondent company for pin rent for more than four years. Charles Hidden, secretary, stated that the reason he did not pay the pin rent was because of the refusal of the officers of the Bennett and Thom company to draw up a contract acceptable to him. The record shows, however, that the Bennett and Thom Telephone Company endeavored to get Mr.

Hidden to sign a similar contract to that being used by The Northwestern Telephone Exchange Company. A certified copy of the minutes of a meeting of the stockholders of the Bennett and Thom Telephone Company held March 5, 1920, shows that at this meeting Mr. Hidden was given opportunity to sign the contract, but he declined to act.

Since the evidence clearly indicates that the Eldridge Rural Telephone Company has paid no part of its pin rent to the Bennett and Thom Telephone Company, the Commission is of the opinion that the Bennett and Thom Telephone Company was justified in disconnecting the lines of the Eldridge Rural Telephone Company, in view of the fact that the lines of the Eldridge Rural Telephone Company were strung into Eldridge on the poles of the Bennett and Thom Telephone Company. The evidence in this case further indicates that the respondent acted in good faith and made several attempts to have the matter of pin rent adjusted before disconnecting the lines.

Several places of business in Eldridge desire connections with the Eldridge Rural Telephone Company, and it would appear to the Commission that the best solution of this difficulty would be for the Eldridge Rural Telephone Company to run a line into Eldridge on its own poles. The two companies can then operate without friction. The matter of the payment of pin rent is not a question for the Commission to decide, but is a matter for the courts; but upon the showing made, the Commission would not be justified in ordering the Bennett and Thom Telephone Company to restore the service which was discontinued because of the failure of the complainant to pay the pin rent.

The telephone laws of the State of North Dakota authorize this Commission to approve the building of telephone lines where the needs of that community demand it, and the Commission is of the opinion that subscribers of the Eldridge Rural Telephone Company will be better served

if the Eldridge Rural Telephone Company will build a line of its own into Eldridge, and the Commission will authorize the Eldridge Rural Telephone Company to build into Eldridge.

After careful consideration of all the evidence in this case, the Commission is of the opinion, and finds, that the complaint of the Eldridge Rural Telephone Company should be dismissed, and it is so ordered.

Done at Bismarek, North Dakota, this seventh day of November, 1921.

In re APPLICATION OF THE NORTHWESTERN BELL TELEPHONE
COMPANY FOR AUTHORITY TO INCREASE EXCHANGE AND
TOLL RATES.

Case Nos. 330-337.

Decided November 26, 1921.

Increase in Rates Denied.

OPINION.

Under date of January 10, 1921, the Northwestern Bell Telephone Company, which operates 70 exchanges in North Dakota, filed with the Commission under the provisions of Section 14, Chapter 192, Laws of 1919, a schedule of toll and exchange rates which it desired to have become effective in thirty days. At the time of the filing of these rates there was pending before the Commission another application for increased rates upon which action had not been taken, and in order that the matters involved in these proceedings may be made entirely clear, it is deemed advisable to review briefly all of the proceedings since August, 1920.

On August 18, 1920, The Northwestern Telephone Exchange Company, which has later been succeeded by the Northwestern Bell Telephone Company, made formal application to the Commission for an increase in its exchange and toll rates in North Dakota. Hearing in the

matter was held at Bismarck on December 2, 1920. Before the Commission had rendered a decision in this case, the company filed the Section 14 rates which are involved in this proceeding. This section provides that the rates so filed shall become effective in thirty days if not suspended by the Commission. By reason of the fact that no decision had been rendered in the former case, the Commission, on November 18, 1921, suspended the rates in this filing for a period of one hundred and twenty days as provided by law. On April 9, 1921,* the Commission disposed of the application filed on August 18, 1920, and docketed as Case Nos. 1631 and 1634, by denying the application for an increase.

The rates filed under the provisions of Section 14 were practically identical with the rates asked in the application of August 18, 1920. With a view of further investigating the reasonableness of the rates so filed, and in order to permit all interested parties in various parts of the State to appear and offer testimony, the Commission, on April 9, 1921, issued notices of hearings to be held at the following places: *Jamestown, Monday, May 9, 1921, at 1:00 P. M.; Fargo, Tuesday, May 10, 1921, at 9:00 A. M.; Grand Forks, Wednesday, May 11, 1921, at 9:00 A. M.; Rugby, Thursday, May 12, 1921, at 1:30 P. M.*

The investigation was not completed before the expiration of the one hundred and twenty days suspension, and on May 6, 1921, the Commission issued a second notice further suspending the rates for a further period of six months, pending the completion of the Commission's investigation into the necessity for and reasonableness of the rates contained in the Section 14 filing. Pursuant to notice, hearings were held at Jamestown, Fargo, Grand Forks and Rugby on May 9, 10, 11, and 12, respectively. *E. A. Prendergast*, attorney, represented the telephone company at each of the hearings. At Jamestown, *F. G. Kneeland*, city attorney, appeared on behalf of the city of Jamestown; at Fargo,

* See Commission Leaflet No. 114, p. 1485.

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Honorable B. J. Spalding, attorney, appeared for the city of Fargo; *A. G. Divet*, attorney, represented the Fargo Commercial Club and certain individual subscribers; *Lovell and Horner*, attorneys, appeared on behalf of the Attorney General of the State of North Dakota; at Grand Forks, *Henry O'Keefe*, mayor, and *M. F. Murphy*, appeared on behalf of the city; *H. M. Stanton* appeared on behalf of the Commercial Club. The appearances at Rugby were *L. H. Nostdal*, city attorney, *Paul Campbell*, attorney of Rugby, and *Victor Wertner*, city attorney of Harvey.

A voluminous amount of testimony was taken at these hearings, and many exhibits were filed by the company in support of their application. Representatives of the various cities stated that they did not have sufficient time to make an exhaustive study of the operating statements of the company, and urged the Commission to make a thorough investigation of the books and records of the company before authorizing any change in rates. The Commission thereupon retained the services of Mr. S. J. Hunt, of Bishop, Brissman and Company, with instructions to make a thorough check of the books of the company. Before the investigation had been completed and a decision could be reached in this case, the telephone company appealed from the decision of the Commission in the original case to the United States District Court.

The matter was argued before the United States District Court at Fargo, North Dakota, on Monday, September 5, 1921, and on September 8, the Court issued an order establishing a schedule of temporary rates pending final hearing and determination of this suit, and enjoining the Commission from enforcing the schedule of rates prescribed by this Commission. The order of the Court further recites:

"That this court reserves jurisdiction of the subject-matter of this application for an injunction, and of the parties thereto, and reserves its power and authority to add to, take from, modify, or supplement the injunction hereby decreed, or any other provision of this decree at any time during the pendency of this suit. That any other or further relief than that hereby granted is hereby denied, without prejudice, however, to another

application, by either party hereto, upon the same evidence, together with new evidence of subsequent facts or occurrences which show by actual tests for a reasonable period of time, that the rates herein authorized are either too high or too low."

The temporary rates ordered into effect by the United States District Court are lower than the rates filed with the Commission in this Section 14 filing. The second suspension order issued by the Commission was made for a period of six months, and expires early in December, and no further suspension orders may be issued under the provisions of the Utility Law, according to our interpretation. It is apparent that the court desires an actual test for a reasonable period of time for the rates authorized in its restraining order. These rates have been in effect only a little over two months, and pending the termination of this matter by the court, the Commission will preserve its rights by issuing an order in this Section 14 filing.

The Commission has made an exhaustive study of the matters involved in this Section 14 filing, and after careful consideration of all the testimony in the case, the representations made and the arguments adduced, the Commission is of the opinion, and finds, that the rates filed under the provisions of Section 14, and docketed as Case Nos. I-330-337, are unreasonable and unjust, and that the increase in rates should therefore be denied.

An appropriate order will be entered.

ORDER.

At a regular meeting of the Board of Railroad Commissioners of the State of North Dakota, held at Bismarck, November 26, 1921, the above matter being at issue upon Section 14 filing of tariffs containing exchange and toll rates, rules and practices, filed January 10, 1921, to become effective February 2, 1921, which tariffs were suspended under the provisions of Paragraph B, Section 14, Chapter 192, Laws of 1919, pending investigation by the Commission; hearings having been had pursuant to law, and a

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report containing findings of fact and conclusions having been prepared, submitted and approved by the Commission, which report is hereby referred to and made a part hereof, and full consideration having been given to all matters and things involved, the Commission is of the opinion, and finds, that the rates therein filed are unreasonable and unjust, and

It is hereby ordered, That said rates, charges, rules and practices shall be denied.

Done at Bismarck, North Dakota, this twenty-sixth day of November, 1921.*

* On the same day a similar order was entered, *In re North Dakota Independent Telephone Company* (I-329-338).

OHIO.

The Public Utilities Commission.

**THE UNION CENTER MUTUAL TELEPHONE ASSOCIATION v.
THE CELINA AND MERCER COUNTY TELEPHONE COMPANY.**

No. 2359.

Decided November 30, 1921.

**Invasion of Territory Found—Construction of Competitive Plant
Because of Dissatisfaction with Rates or Service Disapproved
— Remedy for Improper Facilities and Inadequate
Service Held to Lie in Complaint to Com-
mission—Certificate of Convenience
and Necessity Denied Mutual
Company not for Profit.**

FINDINGS.

Applicant association filed with the Commission its application asking that a certificate of necessity and public convenience be granted it under the provisions of Section 614-52 of the General Code of Ohio, authorizing it to operate and maintain a telephone system in the village of Mendon, Mercer County, Ohio, and vicinity, alleging, among other things, that it is an association of persons, not for profit, organized for the purpose of operating a mutual telephone system in said village aforesaid and vicinity; that the respondent, The Celina and Mercer County Telephone Company, is a corporation for profit, incorporated as a telephone company, under the laws of Ohio and has been engaged in and still is attempting to operate a telephone system in the village of Mendon, Ohio, and vicinity, and its principal place of business at Celina, Ohio.

The applicant further alleges in its application that during the year 1913 and subsequent thereto, relying upon certain rulings of the Public Service Commission of Ohio,

and decrees of certain courts of Ohio holding that the applicant, being a mutual telephone company organized not for profit, that it was not necessary for it to obtain a certificate of necessity authorizing it to invade the village of Mendon, Mercer County, Ohio, and certain territory contiguous thereto, at that time occupied by the respondent company, it proceeded to and did erect a telephone plant and system at Mendon, Ohio, and in certain contiguous territory, then being occupied and served by the respondent company, and that on June 14, 1921, the Supreme Court of Ohio held:

"That applicant company was engaged in the business of transmitting to, from, through, or in the State of Ohio, telephone messages and a common carrier, and as such, included in the term public utility, used in Section 614-2a of the General Code, and though organized 'not for profit' cannot operate its telephone plant or system, unless it first obtain from the Commission, a certificate as provided under Section 614-52 of the General Code of Ohio."

The applicant further alleges in substance that prior to the building of its telephone plant or system, the respondent company refused to make additions to its then existing system or to give adequate and efficient service to the subscribers thereof and that solely because of its austere and exacting methods, and of the grossly inefficient and inadequate telephone service furnished said community, caused most of its subscribers to withdraw their patronage; and that the welfare, convenience and general good of the citizens, the business and professional interests of the community of which Mendon, Ohio, is the center, will be conserved, promoted and advanced by the granting of the certificate prayed for.

The respondent company filed its answer and for its first defense admits the purpose of the applicant association, its own corporate entity, its location, and the location of Mendon, Ohio, and denying each and every other allegation in said application contained.

For second defense the respondent alleges that it is a corporation organized under the laws of the State of Ohio, for the purpose of transmitting telephonic messages in this State; that at the time of the invasion by the applicant association of the territory then occupied by it, that said respondent was furnishing adequate local and long distance telephone service to many villages and communities, including the village of Mendon, Ohio, and certain contiguous territory, so invaded by the applicant.

The respondent further alleges that in November, 1913, it filed a schedule carrying an increase in rates, which schedule of rates became effective February 1, 1914; that after the publication of the notice of increase in rates, the applicant association was formed and about 330 of respondent's subscribers out of 440 subscribers discontinued the service theretofore furnished by respondent company; and applicant association thereupon proceeded to build its plant which is now being operated in competition with the plant of respondent company in the territory in question without first securing the certificate of necessity provided for by Section 614-52 of the General Code, and without any person, firm or corporation, the applicant association or any of its members having made complaint to the Commission that any rate, fare, toll, rental, schedule, classification or service rendered, charged, demanded or proposed to be rendered, charged, demanded or exacted was, in any respect, unjust, unreasonable, unjustly discriminatory, unjustly preferential, or that any regulation or practice affecting or relating to any service furnished by the respondent, or any connection therewith, was in any way unjust, insufficient, unjustly discriminatory, unjustly preferential, or that any service was inadequate, or could not be obtained.

The respondent further alleges that prior to the construction of the plant of applicant, and at the time the applicant association so invaded the territory in question, the respondent sought to enjoin said applicant association

from building and operating a telephone system in the territory occupied by respondent, without applicant first securing a permit as provided for by Section 614-52 of the General Code; that said cause was pending in the courts of the State of Ohio until finally decided by the Supreme Court on June 19, 1921, in favor of respondent; that notwithstanding the pendency of said action in the courts, the applicant on its own volition and in violation and disregard of law, built its plant in Mendon, Ohio, and the territory in question, and that at the time of the invasion of said territory by applicant association, the respondent was furnishing adequate service in said territory; and further, that if the service is insufficient, inefficient or contrary to law, it is willing and able to carry out any order of the Commission relating thereto, therefore praying that the certificate of necessity be denied and for such other relief as may be proper.

The hearing of said cause consumed three days and a voluminous record, consisting of testimony and exhibits, introduced before the Commission, depositions taken locally, and briefs of counsel fully present the situation.

The testimony as well as the admissions made by witnesses for the applicant, conclusively show, viz:

(a) At the time the said association was organized the respondent company was serving Mendon, Ohio, and certain contiguous territory with telephone service.

(b) That as soon as the respondent company filed its schedule with the Commission in November, 1913, increasing rates in said occupied territory, to become effective February 1, 1914, the organizers of said applicant began to and did proceed to occupy the same territory then being served by respondent, without first applying to and securing a certificate of public necessity from this Commission, as provided in Section 614-52, General Code.

(c) That no complaint was ever filed with the Public Utilities Commission of Ohio, complaining of the rates of said respondent company, or the efficiency of its service in said territory.

(d) That although respondent had instituted an injunction proceeding in the courts of Mercer County, Ohio, seeking to enjoin applicant association from proceeding to erect its telephone system in the territory in question, and although said litigation was not finally determined by the courts

of Ohio, said association proceeded to and did erect a complete telephone system in said disputed territory of respondent company, without the proper legal authority so to do.

The Supreme Court of our State having held, in the case of *The Celina and Mercer County Telephone Company v. The Union Center Mutual Telephone Company*, decided June 14, 1921, that the applicant was compelled to apply to this Commission and secure a certificate of necessity before it had the legal right to own or operate a plant for the furnishing of telephone service in the disputed territory, the only question left that need be considered by the Commission is:

"Is it proper and necessary for the public convenience, that the applicant be authorized to operate its telephone system in said disputed territory, the respondent having occupied said territory for many years and no complaint as to rates or adequacy of service having been filed with the Commission?"

The question of the right of the applicant to enter and operate its telephone system in the disputed territory already occupied by respondent, is a question of fact, and must be considered and finally determined as to whether it is a public necessity and whether adequate service is being or can be rendered by the respondent company.

The testimony offered by applicant does not show that any disability exists which prevented or will prevent the respondent company from rendering adequate telephone service in said territory at reasonable rates, but on the contrary, the evidence convinces the Commission that respondent company is financially able to and will furnish same if an opportunity be given it so to do.

Regardless of the efficiency or adequacy of service prior to the increasing of its rates by the respondent company to become effective February 1, 1914, nevertheless without availing themselves of their legal rights under the utility laws, to compel said respondent company to perform its duty to its then subscribers, by applying to The Public Utilities Commission of Ohio for relief, the organizers of

the applicant association coolly proceeded to and did invade the territory then and still occupied by respondent company.

Whenever a telephone company is operating with poor facilities or is rendering inadequate service, the Commission has the power either on its own motion or upon complaint under the provisions of the Public Utilities Law, to compel it to improve both its service and facilities so that it can and will perform its duty to the public.

Under the facts as disclosed by the testimony in this case, the Commission is not convinced that it should penalize the respondent company on account of the character of its facilities or service rendered in the past, by permitting the applicant telephone association to operate in the disputed territory which it unlawfully invaded, and thereby create competitive conditions which would completely destroy the legally invested capital of respondent, until the respondent has an opportunity and at least a reasonable time in which to remedy conditions both as to facilities and service, if the same are not adequate and efficient.

This Commission held in the case of *The Citizens' Telephone Exchange Company v. The Metamora Telephone Company*, decided November 18, 1919,* that:

"If the service of any telephone company occupying a certain territory is not adequate or its practices are in any way in violation of law, the remedy is not to attempt to install another plant, thereby so depleting the revenues of both that neither can afford to furnish adequate service, but to apply to this Commission, setting forth wherein the existing company is not performing its full duty to the public, and asking for an order requiring it to do so. A certificate of convenience and necessity should be applied for only when the plant of the existing company is not adequate to meet the demands of the public and cannot be made so."

And the Commission still adheres to that principle and policy.

We believe that Section 614-52 of the General Code was intended to approve such method as just above stated, and

* See Commission Leaflet No. 97, p. 439.

that to hold otherwise would nullify the very intent of said section, which, we believe, was enacted to put a stop to the sort of destructive competition revealed by the record in the instant case.

Much has been said both at the hearing and in the brief of counsel for applicant as to the equity in their cause, claiming that the plant of applicant having been erected and in operation for the last several years, that the Commission would not be doing equity if it refused to grant the certificate applied for.

The maxim — "Equity follows the law," surely fits this case, and applicant association, having utterly failed to follow the law, cannot seek equity with much grace and ask the Commission to grant it the relief sought, thereby destroying the vested rights of the respondent company; for such a policy would jeopardize the safety of any telephone company similarly situated, and eventually the public—and, again, "He who seeks equity must do equity."

Finding no necessity for the issuance of a certificate of convenience to the applicant association, the application, therefore, will be denied.

ENTRY.

This matter was submitted upon the pleadings, the evidence and exhibits, and the argument of counsel.

Upon consideration whereof, and being fully advised in the premises, and having this day made and filed in writing its findings of fact herein, the Commission hereby further finds that public convenience does not require that a certificate issue authorizing and permitting The Union Center Mutual Telephone Company to exercise any license, permit, right or franchise to operate a telephone plant in the village of Mendon, Ohio, and territory contiguous thereto, developed and served by The Celina and Mercer County Telephone Company,

It is, therefore, ordered, That the application of said The Union Center Mutual Telephone Company for such certificate be, and hereby the same is, denied.

Dated at Columbus, Ohio, this thirtieth day of November, 1921.

In re PETITION OF THE SANDUSKY HOME TELEPHONE COMPANY AND CENTRAL UNION TELEPHONE COMPANY FOR SUCH CONSENT AND APPROVAL AS MAY BE NECESSARY TO PERMIT THEM TO RESPECTIVELY SELL AND PURCHASE TELEPHONE PROPERTY.

No. 1836.

Decided December 2, 1921.

Sale and Purchase of Property Authorized — Schedule of Rates Fixed.

ORDER.

This day, after full rehearing, due notice of the time and place of which was given to all parties in interest, this matter again came on for consideration upon the joint application of The Sandusky Home Telephone Company and The Ohio Bell Telephone Company, (the latter substituted as a party herein by the order* of this Commission in the proceeding authorizing the sale and conveyance to said corporation of all the property of Central Union Telephone Company in the State of Ohio), asking the consent to and approval, by this Commission, of the sale, by said first-named applicant, and the purchase by the latter, of all the property and assets of said The Sandusky Home Telephone Company.

And the Commission having heretofore found and ascertained the valuation of the several classes and kinds of property of the applicants used and useful for the convenience of the public in the furnishing of telephonic service in and about the city of Sandusky, Ohio, and of said

* See Commission Leaflet No. 116, p. 219.

property as a whole, upon which valuation the rates, tolls, charges and rentals to be charged, are to be based, and notice of such valuation having been duly given to said applicants and to the mayor of Sandusky, Ohio, by registered letter, as provided by law, and it appearing that the consolidation of applicant's properties in said territory will promote the public convenience, and that the public will thereby be furnished adequate service for a reasonable and just rate, rental, toll or charge therefor, the Commission is satisfied that its consent and authority for such sale and purchase of property should be granted.

And the Commission, coming now to fix and determine the rates, charges, tolls and rentals to be charged upon the sale and conveyance of said property, finds and determines the following rates, charges, tolls and rentals for furnishing telephonic service within the exchange area of Sandusky, Ohio, to be just and reasonable, viz:

(a) Pending the unification and improvement of said properties as solely owned and operated by said The Ohio Bell Telephone Company, the rates, charges, tolls and rentals set forth in said company's now effective schedule, designated P. U. C. O. No. 6, on file with this Commission, with the additional rental of \$1.50 per month, net, for four-party residence service;

(b) Upon the unification and improvement of said properties in the exchange area of Sandusky, Ohio, as solely owned and operated by said The Ohio Bell Telephone Company, the rates, charges, tolls and rentals following, to-wit:

	<i>Net Per Month</i>
Business, individual	\$7 50
Business, two-party	6 00
Business, four-party (Cedar Point)	7 50
Residence, individual	3 25
Residence, two-party	2 75
Residence, four-party	2 00
Residence, four-party (Cedar Point)	3 50
Rural, business	3 00
Rural, residence	2 00
Extension, business	1 50
Extension, residence	1 00
Long distance terminal	2 50

	<i>Net</i> <i>Per Month</i>
Private branch exchange trunk.....	\$11 25
Private branch exchange station.....	1 50
Intercommunicating, master station.....	2 00
Intercommunicating, other stations.....	2 00
Hotel station	60
Cord boards	5 00
Strip of jacks	75
Cordless board	3 00
Joint user, business, individual.....	3 75
Joint user, business, P. B. X.....	5 63
Extra listing, business.....	1 00
Extra listing, residence.....	50

It is, therefore, ordered, That said The Sandusky Home Telephone Company be, and hereby it is, authorized to sell and convey to The Ohio Bell Telephone Company all of its property, rights and other assets; and said The Ohio Bell Telephone Company hereby is authorized to purchase and acquire the same, and to pay therefor the agreed consideration of \$151,200.

It is further ordered, That upon the acquisition of said property and before the unification and improvement thereof, said The Ohio Bell Telephone Company may impose, charge and collect for the furnishing of telephonic service in the exchange area of Sandusky, Ohio, rates, charges, tolls and rentals not in excess of those first hereinbefore found and determined to be just and reasonable, and, upon the unification and improvement of said properties, rates, charges, tolls and rentals not in excess of those lastly hereinbefore found and determined to be just and reasonable.

It is further ordered, That, forthwith upon the exercise of the authority herein granted, said parties file with this Commission schedules providing for their respective withdrawal from and inauguration of service within the territory now served by means of the property hereinbefore authorized to be sold and purchased.

It is further ordered, That the finding hereinbefore set forth as to the service furnished the public shall not be binding upon this Commission in any future proceeding involving said matter.

Dated at Columbus, Ohio, this second day of December, 1921.

In re PETITION OF THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY FOR AUTHORITY TO SELL AND OF THE OHIO BELL TELEPHONE COMPANY FOR AUTHORITY TO PURCHASE THE PROPERTY AND OTHER ASSETS OF THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY LOCATED IN THE STATE OF OHIO.

No. 2405.

Decided December 2, 1921.

Value Determined — Sale and Purchase of Property Authorized.

ORDER.

This day, after full hearing, due notice of the time and place of which was given to all parties in interest, this matter came on for final consideration upon the joint application of The Chesapeake and Potomac Telephone Company of West Virginia, (a corporation duly organized and existing under and by virtue of the laws of West Virginia and authorized to and doing business in portions of the State of Ohio), and The Ohio Bell Telephone Company, (a corporation duly organized and existing under and by virtue of the laws of the State of Ohio), asking the consent to and approval, by this Commission, of the sale by said first-named applicant and the purchase and acquisition by the latter, of all the telephone property and other assets of said The Chesapeake and Potomac Telephone Company of West Virginia located within the State of Ohio; and it being made to appear to the Commission, and the Commission being satisfied that said proposed consolidation of the properties of the applicants will promote

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the public convenience and will furnish the public with adequate service for a reasonable and just rate, rental, toll or charge therefor, the Commission, for the purpose of this consolidation and for the existing service, and not for service after physical unification of the plants and lines, hereby ascertains and determines the valuation of the property of said The Chesapeake and Potomac Telephone Company of West Virginia, including toll property, situated and being in the State of Ohio, to be, at the cost of reproduction as of August 31, 1921, the sum of \$3,762,924 and, upon said date certain, to have a present value of \$3,258,486, and having heretofore, in Proceeding No. 2367,* ascertained and determined the value of the property of said The Ohio Bell Telephone Company, upon which valuations the rates, tolls, rentals and charges for the furnishing of service with said property as consolidated are to be based, and hereby fixes and determines the lawfully existing rates, charges, tolls and rentals of said applicant companies in effect in their several exchange areas as now respectively operated in the State of Ohio, to be the rates, charges, tolls and rentals to be maintained, followed and collected by said The Ohio Bell Telephone Company after the consolidation and merger of said properties, until modified or changed in the manner provided by law.

And the Commission having so ascertained and determined said valuation, and having so fixed and determined said rates, charges, tolls and rentals so to be charged,

It is, therefore, ordered, That said The Chesapeake and Potomac Telephone Company of West Virginia be, and hereby it is, authorized to sell and convey to said The Ohio Bell Telephone Company all of its telephone property and other assets being and within the State of Ohio; and said The Ohio Bell Telephone Company hereby is authorized to purchase, acquire and consolidate the same with its present properties, and to pay therefor the agreed consideration of \$3,231,784.47 plus such additional sum as

* See Commission Leaflet No. 119, p. 1195.

will be necessary to adjust accounts subsequent to August 31, 1921, and to the date of transfer.

It is further ordered, That in the communities where dual service is now furnished by said applicants, the said The Ohio Bell Telephone Company shall proceed to unify its service immediately after the rates to be charged for such unified service shall have been fixed and determined in the manner provided by law.

It is further ordered, That nothing herein shall be construed to be a consent to or approval by this Commission of any increase in rates or diminution of service within the territory now served by means of the property hereinbefore authorized to be sold and purchased, nor shall the findings herein as to the value of said property nor as to rates or service, or the acquiescence in the passing of said agreed consideration, be binding upon this Commission in any future proceeding involving matters of rates and service, or either of them.

It is further ordered, That in all matters and causes pending before this Commission involving any of the property, or the valuation of any of the property, or the rates, charges, tolls or rentals, of said The Chesapeake and Potomac Telephone Company of West Virginia, the name of The Ohio Bell Telephone Company be, and hereby it is, substituted for the name of said The Chesapeake and Potomac Telephone Company of West Virginia as party thereto, and said The Ohio Bell Telephone Company shall have and succeed to all the rights and shall assume and be subject to all the liabilities, respectively, of said The Chesapeake and Potomac Telephone Company of West Virginia in said matters and causes, and each of them.

It is further ordered, That all outstanding contracts and all long distance connections of said The Chesapeake and Potomac Telephone Company of West Virginia shall be preserved and protected by said The Ohio Bell Telephone Company.

Dated at Columbus, Ohio, this second day of December, 1921.

In re APPLICATION OF THE OHIO BELL TELEPHONE COMPANY
TO ISSUE COMMON STOCK, AND FOR AUTHORITY TO THE
AMERICAN TELEPHONE AND TELEGRAPH COMPANY TO
ACQUIRE, HOLD AND DISPOSE OF SAID STOCK.

No. 2413.

Decided December 2, 1921.

**Permission to Issue Stock Granted — Acquisition of Stock by the
American Telephone and Telegraph Company Authorized.**

ORDER.

This day, after full hearing, due notice of the time and place of which was given to all parties in interest, this matter came on for consideration upon the joint application of The Ohio Bell Telephone Company, (a corporation duly organized and existing under and by virtue of the laws of the State of Ohio), and the American Telephone and Telegraph Company, (a corporation of the State of New York, doing business as a public utility in the State of Ohio), and the amendment thereto, asking, on behalf of said first-named applicant the consent and authority of this Commission to issue and dispose of common capital stock of the par value of \$5,000,000, the proceeds to be used to pay the consideration for the property within the State of Ohio of The Chesapeake and Potomac Telephone Company of West Virginia, the purchase and acquisition of which was duly consented to and authorized by the order, this day made and entered in Proceeding No. 2405,* and to reimburse its treasury for uncanceled, capital expenditures therefrom, and, on behalf of said second-named applicant, the consent and authority of this Commission to acquire, hold and dispose of said capital stock of said The Ohio Bell Telephone Company, if and as the issue and disposition of the same shall be consented to and authorized.

* See *supra*, page 452.

The Commission, being fully advised in the premises, and having, in its order, this day made and entered in said Proceeding No. 2405* found and determined that the value of said property, so to be acquired by the applicant from The Chesapeake and Potomac Telephone Company of West Virginia, is in excess of the sum of \$3,231,764.47 plus an additional sum to adjust accounts from August 31, 1921, to the date of the transfer, hereby further finds that, within the period of five years next preceding the date of the filing of the application herein, the applicant actually expended from its treasury for capital purposes, to the twentieth day of September, 1921, the sum of \$2,449,095.13, none of which was obtained or secured by the issue of stock, bonds, notes or other evidences of indebtedness, and that the issue of applicant's said common capital stock of the par value of \$5,000,000 is reasonably required and the money to be procured thereby necessary for the acquisition of property and the reimbursement of applicant's treasury for uncapitalized, capital expenditures therefrom as aforesaid, and is satisfied that consent and authority for the issue and disposition of said common capital stock should be granted.

It is, therefore, ordered, That said The Ohio Bell Telephone Company be, and hereby it is, authorized to issue its common capital stock of the par value of \$5,000,000, and that said common capital stock be sold for the highest price obtainable but not less than the par value thereof.

It is further ordered, That the proceeds arising from the sale of said common capital stock be devoted to and used for the following purposes, and no others, to-wit:

(1) The payment of the consideration, \$3,231,764.47, plus an additional sum to adjust accounts from August 31, 1921, to the date of the transfer of title, for the telephone property and other assets in Ohio of The Chesapeake and Potomac Telephone Company of West Virginia, the purchase and acquisition of which, by the applicant, was duly consented to and authorized by the order, this day made and entered in Proceeding No. 2405.*

* See *supra*, page 452.

(2) The balance of such proceeds to be applied toward the reimbursement of applicant's treasury for the sum of \$2,449,095.13, none of which was obtained by the issue of stock, bonds, notes or other evidences of indebtedness, actually expended therefrom for the construction, completion, extension and improvement of its facilities and other capital purposes within the five years next preceding the date of the filing of the application herein and to the twentieth day of September, 1921.

It is further ordered, That the finding hereinbefore set forth as to the value of the said property so to be acquired of The Chesapeake and Potomac Telephone Company of West Virginia and the within authorization of the capitalization of the consideration therefor shall not be binding upon this Commission in any future proceeding involving rates and/or service.

It is further ordered, That the applicant make verified report to this Commission of the issue and disposition of said common capital stock and, in reasonable detail, of the expenditure of the proceeds thereof pursuant to the terms and conditions of this order.

And the Commission, coming now to consider the application of the American Telephone and Telegraph Company for the consent and authority of this Commission to acquire, hold and dispose of the aforesaid common capital stock of said The Ohio Bell Telephone Company, finds for the purpose of making and entering the following order, only, that the public will, upon such acquisition of said capital stock, be furnished adequate service for a reasonable and just rate, rental, toll or charge therefor, and is satisfied that its consent and authority therefor should be granted.

It is, therefore, further ordered, That the said American Telephone and Telegraph Company be, and hereby it is, authorized to acquire, hold and dispose of the aforesaid \$5,000,000, par value, of the common capital stock of The Ohio Bell Telephone Company.

It is further ordered, That said applicant make verified report to this Commission of the exercise of said authority.

It is further ordered, That the aforesaid findings as to rates and service shall not be binding upon this Commission in any future proceeding involving said matters.

Dated at Columbus, Ohio, this second day of December, 1921.

In re APPLICATION OF THE CENTRAL DISTRICT TELEPHONE COMPANY AND THE WARREN AND NILES TELEPHONE COMPANY FOR THE APPROVAL OF AN AGREEMENT PROVIDING FOR THE SALE OF PROPERTY AND INTERCHANGE OF TRAFFIC.

No. 794.

Decided December 5, 1921.

Increase in Rates as Requested Denied — Increase in Rates Authorized

ORDER.

This day, after full hearing, due notice of the time and place of which was given to all parties in interest, this matter came on for further consideration upon the second supplemental application of The Warren and Niles Telephone Company asking such further modification and amendment of the order,* made and entered herein as of dated May 21, 1917, and as amended May 2, 1919,† insofar as it fixed and prescribed maximum rates, charges, tolls and rentals for the furnishing of local exchange service in and about the city of Warren, Ohio, as will permit and authorize said applicant to establish and maintain, in lieu of the rates, charges, tolls and rentals so fixed by said order, as amended, the following rates, charges, tolls and rentals, viz:

* See Commission Leaflet No. 67, p. 112.

† See Commission Leaflet No. 91, p 420.

WARREN, OHIO, EXCHANGE.

	<i>Net Per Year</i>
Business, individual	\$66 00
Business, five-party	36 00
Residence, individual	36 00
Residence, five-party	24 00
Rural, business	30 00
Rural, residence	24 00
Extra mileage, per each one-fourth mile.....	8 00
P. B. X. trunks, each	72 00
P. B. X. ringing power	48 00
P. B. X. switchboard (per position).....	72 00
P. B. X. stations	15 00

PHALANX, OHIO, EXCHANGE.

Business, individual	\$66 00
Business, multi-party	36 00
Residence, multi-party	24 00

and the following miscellaneous services:

	<i>Per Month</i>
Extension sets, business	\$1 25
Extension sets, residence	50
Extra user, business	1 25
Extra user, residence.....	50
Extension bells	50
Key switches	50
Loud ringing extension bells.....	1 25
Special relay	1 25
Private lines, per station.....	2 75
Changing equipment	3 00

The Commission, being fully advised in the premises and taking into consideration the value of the property, used and useful in the furnishing of said service, the cost of furnishing the same, and the necessary amounts which should be set aside from income for depreciation and contingencies, finds that the rates, charges, tolls and rentals following are not unjust, unreasonable nor excessive, and will not yield a rate of return greater than said The Warren and Niles Telephone Company is entitled to earn upon its property so devoted to the service of the public in and about the city of Warren, Ohio, to-wit:

WARREN EXCHANGE.

	<i>Net Per Year</i>
Business, individual	\$54 00
Business, five-party	36 00
Residence, individual	33 00
Residence, five-party	21 00
Rural, business	30 00
Rural, residence	21 00
Extra mileage, per one-fourth mile.....	8 00
P. B. X. trunk	72 00
P. B. X. ringing power	48 00
P. B. X. switchboard	72 00
P. B. X. station	15 00

PHALANX EXCHANGE.

Business, individual	51 00
Business, multi-party	30 00
Residence, multi-party	21 00

with free interchange of service between said two exchanges, and the said charges for miscellaneous services as hereinabove set forth.

It is, therefore, ordered, That the order,* made and entered herein as of date May 21, 1917, and as amended May 2, 1919,† be, and hereby it is, further modified and amended to permit and authorize said The Warren and Niles Telephone Company to establish, effective January 1, 1922, and thereafter to maintain, impose and collect for the furnishing of local exchange telephonic service in and about the city of Warren and the village of Phalanx, Ohio, rates, charges, tolls and rentals not greater than nor in excess of the rates, charges, tolls and rentals hereinbefore found and determined to be not excessive, unjust or unreasonable, instead and in lieu of the rates, charges, tolls and rentals so fixed and prescribed by said order.

It is further ordered, That schedules be filed accordingly.

Dated at Columbus, Ohio, this fifth day of December, 1921.

* See Commission Leaflet No. 67, p. 112.

† See Commission Leaflet No. 91, p. 420.

**IN re JOINT APPLICATION OF THE PEOPLES TELEPHONE COM-
PANY AND THE GENEVA TELEPHONE COMPANY.**

No. 2361.

December 6, 1921.

Value Determined — Sale and Purchase of Property Authorized.

ORDER.

This day, (it appearing to the Commission from the verified allegations in said application and the sworn statements and exhibits filed in connection therewith, and other documentary evidence submitted, that the taking of oral testimony herein is unnecessary), this matter came on for consideration upon the joint application of The Peoples Telephone Company, (a corporation duly organized and existing under and by virtue of the laws of the State of Ohio, and the owner and operator of a telephone company furnishing service to subscribers therefor and the public in and about the municipalities of Geneva and Madison, Ohio), and The Geneva Telephone Company, (a corporation duly organized and existing under and by virtue of the laws of the State of Ohio), asking the consent to and approval, by this Commission, of the sale by said first-named applicant and the purchase and acquisition by the latter of all the property, rights and other assets of said The Peoples Telephone Company.

The Commission, being fully advised in the premises, finds from the pleadings and exhibits filed herein, its independent inquiry and investigation thereupon, and for the purposes of this proceeding:

(1) That for purchase and sale purposes, the value of all the property, rights and other assets of said The Peoples Telephone Company, including \$6,000 worth of materials and supplies now on hand for contemplated additions and extensions to plant, is the sum of \$141,690, and

(2) That the public will, upon such sale and purchase of said public utility property, be furnished adequate service for a reasonable and just rate, rental, toll or charge therefor, and is satisfied that consent and authority for such sale and purchase of public utility property should be granted.

It is, therefore, ordered, That said The Peoples Telephone Company be, and hereby it is, authorized to sell and convey to The Geneva Telephone Company, all of its

property, rights and other assets, consisting, generally, of a telephone plant for the furnishing of service in and about the municipalities of Geneva and Madison, Ohio, and of materials and supplies for additions to plant of the value of \$6,000; and said The Geneva Telephone Company hereby is authorized to purchase and acquire the aforesaid property, rights and other assets, and to pay therefor a consideration not exceeding the sum of \$141,690.

It is further ordered, That, forthwith upon the exercise of the authority herein granted, said parties file with this Commission schedules providing for their respective withdrawal from and inauguration of service within the territory now served by means of said property.

It is further ordered, That nothing herein shall be construed to be a consent to or approval, by this Commission, of any increase in rates or diminution of service within the territory now served by means of said property, nor shall the findings hereinbefore set forth as to the value of said property, rates and service, or the acquiescence in the passing of the aforesaid maximum consideration, be binding upon this Commission in any future proceeding involving the matters of rates and service.

And the Commission having, in the course of its inquiry and investigation in the above matter, caused an appraisal of the property of said The Peoples Telephone Company to be made, and desiring to preserve the said appraisal for any and all lawful purposes for which it may be used in the future and for the purpose of fixing a permanent valuation of said property, of record, for such purposes as aforesaid,

And the Commission coming now to value the said property of said The Peoples Telephone Company, used and useful for the convenience of the public in the furnishing of telephonic service in and about the municipalities of Geneva and Madison, Ohio, and after considering the inventory of its said property filed herein by said The Peoples Telephone Company, the evidence and exhibits, and having completed an inventory and valuation of said property, and being fully advised in the premises.

The Commission finds and ascertains the value of the several classes and kinds of property of said The Peoples Telephone Company, used and useful for the convenience of the public in the furnishing of telephonic service, and of said property as a whole, as of August 18, 1921, to be as set forth in the following summary, viz:

THE PEOPLES TELEPHONE COMPANY.

FINAL SUMMARY BY ACCOUNTS — GENEVA AND MADISON, OHIO.

Number of Items	Description	Reproduction Value	Depreciation		Present Value
			Per cent.	Amount	
207	Right-of-way	\$2,352 00			\$2,352 00
211	Land	4,500 00			4,500 00
212	Buildings	13,000 00	25.0	\$3,250 00	9,750 00
221	Central office telephone equipment	11,218 15	21.2	2,364 59	8,853 56
222	Other equipment of central office	763 47	38.5	294 13	469 34
231	Station apparatus	19,053 21	15.4	2,953 02	16,100 19
232	Station installations	4,542 65	15.5	690 90	3,851 75
235	Booths and special fittings	251 51	23.8	59 92	191 59
241	Exchange pole lines	26,006 97	34.0	8,877 32	17,129 65
242	Exchange aerial cable	12,446 44	8.9	1,107 85	11,338 59
243	Exchange aerial wire	22,047 65	27.5	6,054 96	15,992 69
244	Exchange underground conduit	5,381 84	13.1	706 63	4,675 21
245	Exchange underground cable	6,684 50	7.8	519 91	6,164 59
251	Toll pole lines	4,851 52	41.5	2,015 42	2,836 10
253	Toll aerial wire	981 49	23.6	231 39	750 10
261	Office furniture and fixtures	1,250 30	19.8	247 95	1,002 35
264	General stable and garage equipment	4,850 00	26.5	1,285 00	3,565 00
265	General tools and implements	531 10	21.0	111 54	419 56
	Plant supervision, tool and supply expense	5,698 87	21.8	1,244 63	4,454 24
	TOTAL PHYSICAL PROPERTY	\$146,411 67	21.84	\$32,015 16	\$114,396 51
	Preliminary organization, general legal and engineering	2,342 58			2,342 58
	Organization, general, legal, engineering, supervision, accounting, contingencies, casualties, omissions, insurance, taxes and interest during reproduction	18,740 69	21.84	4,092 97	14,647 72
	TOTAL OVERHEAD VALUES.	\$21,083 27	19.4	\$4,092 97	\$16,990 30
	Working capital including supplies	5,270 82			5,270 82
	TOTAL	\$172,765 76	20.9	\$36,108 13	\$136,657 63

It is, therefore, further ordered, That notice of such valuation so placed upon the said property be transmitted, by registered letter, to said The Peoples Telephone Company and to the mayors of the municipalities of Geneva and Madison, Ohio; all as provided for under Section 499-12 of the General Code of Ohio.

It is further ordered, That all inventories, valuations, transcripts and exhibits be filed and considered as a part of the record herein.

It is further ordered, That the Commission reserve the right, in the event it shall determine the aforesaid inventory to be incomplete and inaccurate, or that said valuation is incorrect, to make such changes therein as may be necessary before said tentative valuation shall become final.

Dated at Columbus, Ohio, this sixth day of December, 1921.

In re APPLICATION OF THE GENEVA TELEPHONE COMPANY
FOR AUTHORITY TO ISSUE SECURITIES.

No. 2362.

Decided December 6, 1921.

Issue of Stock Authorized.

ORDER.

This day, (it appearing to the Commission from the verified allegations in said application and the sworn statements and exhibits filed in connection therewith, and other documentary evidence submitted, that the taking of oral testimony herein is unnecessary), this matter came on for consideration upon the application of The Geneva Telephone Company (a corporation duly organized and existing under and by virtue of the laws of the State of Ohio), asking the consent and authority of this Commission to issue and dispose of common capital stock of the total par

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value of \$185,000, \$50,000, par value, thereof, to be sold at par and \$20,000 of such proceeds, with \$135,000, par value, of said common capital stock, to be paid and delivered to The Peoples Telephone Company, of Geneva, Ohio, as the consideration for the property of said company, the purchase and acquisition of which, by applicant, was this day consented to and authorized, for a consideration not to exceed \$141,690, by the order made and entered in Proceeding No. 2361,* and the balance of such proceeds to be used to provide additions, extensions and improvements to said property.

The Commission, being fully advised in the premises, and having, in its order in said Proceeding No. 2361,* found that, for purchase and sale purposes, the property so to be acquired of said The Peoples Telephone Company is worth the sum of \$141,690, hereby further finds from the pleadings and exhibits filed herein, and its independent inquiry and investigation thereupon:

That the applicant has in contemplation, or under contract, additions, extensions and improvements to its facilities of the present, estimated cost of \$32,917, for which, however, materials and supplies of the approximate cost of \$6,000, will be acquired with the said property so to be acquired of The Peoples Telephone Company and

That the issue of applicant's common capital stock of the par value of \$171,690 is reasonably required, and the money to be procured from the sale of \$36,690, par value thereof, is necessary for the acquisition of said property, and the construction, completion, extension and improvement of applicant's facilities,

and is satisfied that consent and authority for the issue and disposition of applicant's common capital stock of the par value of \$171,690 should be granted.

It is, therefore, ordered, That said The Geneva Telephone Company be, and hereby it is, authorized to issue its common capital stock of the total par value of \$171,690, and that \$36,690, par value thereof, be sold for the highest price obtainable but not less than the par value thereof.

* See *supra*, page 461.

It is further ordered, That said capital stock and the proceeds arising from the sale of that part thereof which shall be sold, be devoted to and used for the following purposes, and no others, to-wit:

\$135,000, par value, of said common capital stock, and \$6,690 of the proceeds of that part of said stock which is to be sold to be delivered, at par, and paid to The Peoples Telephone Company in full and final payment of the consideration for the property of said last-named corporation, the purchase and acquisition of which, by the applicant, was this day consented to and authorized by the order made and entered in Proceeding No. 2361,* and the balance of such proceeds, viz.: \$30,000, to be used to provide additions, extensions and improvements to applicant's facilities, a program of which, now in contemplation or under contract, is of the estimated cost of \$32,917, but for the provision of which materials and supplies, of the value of \$6,000, will be, by the applicant, acquired with said property of said The Peoples Telephone Company.

It is further ordered, That said applicant make verified report to this Commission semi-annually, within fifteen days after the close of each calendar, semi-annual period, of the issue and disposition of said capital stock, and the expenditure of the proceeds thereof pursuant to the terms and conditions of this order.

It is further ordered, That said petition, insofar as it asks consent and authority to issue and dispose of common capital stock of the additional par value of \$13,310, be, and hereby it is, denied.

Dated at Columbus, Ohio, this sixth day of December, 1921.

* See *supra*, page 461.

In re APPLICATION OF THE PREBLE COUNTY TELEPHONE COMPANY FOR AUTHORITY TO INCREASE CAPITAL STOCK.

No. 2437.

Decided December 13, 1921.

Issue of Stock Authorized.

ORDER.

This day, (it appearing to the Commission from the verified allegations in said application and the sworn statements and exhibits filed in connection therewith, and other documentary evidence submitted, that the taking of oral testimony herein is unnecessary), this matter came on for consideration upon the application of The Preble County Telephone Company, a corporation duly organized and existing under and by virtue of the laws of the State of Ohio, asking the consent and authority of this Commission to issue and dispose of its common capital stock of the par value of \$15,000, the proceeds arising from the sale thereof to be used to purchase real estate and remodel and improve the applicant's office buildings situated thereupon.

The Commission, being fully advised in the premises, finds from the pleadings and exhibits filed herein and its independent inquiry and investigation thereupon:

That the applicant has in contemplation the purchase of certain real estate upon which is located its office buildings, and the remodeling and improving of such buildings, at a total estimated cost of \$15,077.50, and

That the issue of applicant's common capital stock of the par value of \$15,000 is reasonably required and the money to be procured thereby necessary for the acquisition of property, and the construction, completion, extension and improvement of applicant's facilities as aforesaid,

and is satisfied that consent and authority for the issue and disposition of said common capital stock should be granted.

It is, therefore, ordered, That said The Preble County Telephone Company be, and hereby it is, authorized to issue

its common capital stock of the total par value of \$15,000 and that said common capital stock be sold for the highest price obtainable, but not less than the par value thereof.

It is further ordered, That the proceeds arising from the sale of said common capital stock be devoted to and used for the following purpose, and no other, to-wit: the purchase of the real estate in West Alexandria, Ohio, upon which is located the applicant's office buildings, and the construction of certain additions, extensions and improvements thereto, as more fully set forth in the detailed estimate filed herein upon the third day of December, 1921, which estimate hereby is made a part of this order by reference, at a total cost, therein estimated, of the \$15,077.50.

It is further ordered, That the applicant make verified report to this Commission semi-annually, within fifteen days after the close of each calendar, semi-annual period, of the issue and disposition of said capital stock and, in reasonable detail, the expenditure of the proceeds thereof pursuant to the terms and conditions of this order.

Dated at Columbus, Ohio, this thirteenth day of December, 1921.

In re APPLICATION OF THE CITIZENS TELEPHONE COMPANY
OF CIRCLEVILLE FOR AUTHORITY TO ISSUE MORTGAGE
BONDS.

No. 2451.

Decided December 22, 1921.

Issue of Bonds Authorized.

ORDER.

This day, (it appearing to the Commission from the verified allegations in said application and the sworn statements and exhibits filed in connection therewith, and other documentary evidence submitted, that the taking of oral testimony herein is unnecessary), this matter came on for

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consideration upon the application of The Citizens Telephone Company, (a corporation duly organized and existing under and by virtue of the Laws of Ohio with its principal office at Circleville in said State), asking the consent and authority of the Commission to issue and sell \$35,900, principal sum, of first mortgage, ten-year, 6 per cent. bonds, dated March 1, 1922, the proceeds arising from the sale thereof to be used to satisfy and discharge its present outstanding issue of first mortgage, 6 per cent. bonds, of a like principal amount, which mature upon the first day of March, 1922.

The Commission, being fully advised in the premises, finds:

That the applicant now has outstanding \$35,900, principal sum, of first mortgage, 6 per cent. bonds which mature upon March 1, 1922, and must, upon said day, be satisfied and discharged or lawfully refunded, and

That the issue of applicant's first mortgage, ten-year, 6 per cent. bonds, dated March 1, 1922, of the principal sum of \$35,900 is reasonably required and the money to be procured thereby necessary for the satisfaction and discharge or refunding of the aforesaid maturing obligations,

and is satisfied that consent and authority for the issue and disposition of said bonds should be granted.

It is, therefore, ordered, That said The Citizens Telephone Company, of Circleville, Ohio, be, and hereby it is, authorized to issue its first mortgage, ten-year, 6 per cent. bonds, dated March 1, 1922 of the principal sum of \$35,900, and that said bonds be sold for the highest price obtainable, but not less than the principal amount thereof.

It is further ordered, That the proceeds arising from the sale of said bonds be devoted to and used for the following purpose, and no other, to-wit: the payment and discharge of the applicant's present outstanding first mortgage, 6 per cent. bonds of the principal sum of \$35,900, which mature upon the first day of March, 1922.

It is further ordered, That, forthwith upon the acquisition of any of said first mortgage bonds, maturing March 1, 1922, the applicant render the same non-negotiable and,

upon its acquisition of all of said bonds, cancel and destroy the same.

It is further ordered, That the applicant make verified report to this Commission semi-annually, within fifteen days after the close of each calendar, semi-annual period of the issue and disposition of said new first mortgage bonds, the expenditure of the proceeds thereof, and the cancellation and destruction of said first mortgage bonds, which mature March 1, 1922, pursuant to the terms and conditions of this order.

Dated at Columbus, Ohio, this twenty-second day of December, 1921.

OKLAHOMA.

Corporation Commission.

In re **REVISION OF RATES CHARGED BY THE STONEWALL TELEPHONE COMPANY.**

Cause No. 4458.

Decided November 10, 1921.

Decrease in Rates Suggested by the Company Authorized by the Commission.

JOURNAL ENTRY.

The Commission has, this day, received from Mr. W. H. Letteer, manager and owner of the Stonewall Telephone Company at Stonewall, Oklahoma, a letter reading as follows:

"I am writing for advice in regard to telephone rates at Stonewall. Our rates are \$3.00 for business, \$2.00 for residence, \$1.75 for farmer-owned telephones, and 50 cents for switching farmers per month. At these rates October business just about paid expenses to say nothing about depreciation or anything on the investment, and conditions are likely to get worse. I have lost 40 telephones since January 1 and will lose more at the above rates and may at a lower rate. The people are asking for a lower rate, not on account of service, it's because they have lost money by not making a cotton crop and want me to share their losses with them.

Taking these conditions in consideration it might be better to make a temporary lower rate of \$2.50 for business, \$1.50 for residence, \$1.50 for farmer-owned telephones, and 50 cents for switching farmers per month. Fifty cents per month for switching is all right, they are not objecting to that. These lower rates may not need to be charged if in the near future the price of material and labor gets cheaper so as we can repair or rebuild our plants. These lower rates I have offered may help while times are so hard or until something happens to encourage the people. For my part it might be as well to leave the rates as they are, but will leave it with the Commission."

The Commission being in regular session considered the facts set forth in the foregoing letter.

It is, therefore, ordered, That the said W. H. Letteer be, and he is hereby, authorized to establish the following schedule of rates for telephone service at Stonewall:

	<i>Per Month</i>
Business telephones	\$2 50
Residence telephones	1 50
Farmer-owned telephones	1 50
Switching farmers' telephones.....	50

The schedule of rates hereby established shall become effective December 1, 1921, and remain in full force and effect until further orders of the Commission.

Done at Oklahoma City, Oklahoma, this the tenth day of November, 1921.

SOUTHWESTERN BELL TELEPHONE COMPANY *v.* LIMA TELEPHONE COMPANY.

Cause No. 4436 — Order No. 1971.

Decided December 24, 1921.

Fine Imposed for Violation of Commission's Order — Discontinuance of Service Pending Compliance with Former Order Authorized.

ORDER.

On the twenty-fifth day of October, 1921, the Commission issued its Citation No. 976, based on the verified complaint of the Southwestern Bell Telephone Company requiring the Lima Telephone Company to appear before the Corporation Commission on November—1921, and show cause why said Lima Telephone Company should not be adjudged in contempt of Commission's Order No. 912* and penalized for such violation on account of failure to pay moneys due and owing under joint traffic agreement by the said Lima Telephone Company and the Southwestern Bell Telephone Company in accordance with provisions of Commission's Order No. 912.*

* See Commission Leaflet No. 41, p. 1229.

At the date set for hearing under said citation the defendant the Lima Telephone Company, failed to appear. The allegations in said verified complaint for citation being undisputed, the Commission finds the same to be true and finds that the defendant, Lima Telephone Company, is guilty of violation of Commission's order No. 912,* as alleged.

At the hearing in this case the defendant was granted time until December 10, 1921, to comply with the requirements of Order No. 912,* in which compliance the said defendant has completely failed.

It is, therefore, ordered, That the Lima Telephone Company be adjudged guilty of violation of Commission's Order No. 912* and fined in the sum of \$100 and costs on account of such violation.

Upon failure of the Lima Telephone Company to pay said fine and costs within a period of thirty days from date hereof, let execution issue.

Done at Oklahoma City, Oklahoma, this twenty-fourth day of December, 1921.†

* See Commission Leaflet No. 41, p. 1229.

† On December 12, 1921, similar orders were issued, and fines were imposed in the following cases: *Southwestern Bell Telephone Company v. Clarita Telephone Company* (No. 4431); *Southwestern Bell Telephone Company v. Inola Telephone Company* (No. 4432); *Southwestern Bell Telephone Company v. Ravia Telephone Company* (No. 4437), and on December 14, 1921, discontinuance of service by the Southwestern company was authorized in Cause Nos. 4431, 4436 and 4437.

OREGON.

Public Service Commission.

In re APPLICATION OF THE NEHALEM MUTUAL TELEPHONE
COMPANY FOR AUTHORITY TO REMOVE ITS CENTRAL
OFFICE FROM MIST TO BIRKENFELD.

U-F-362 — Order No. 773.

Decided November 28, 1921.

Permission to Remove Central Office from One Town to Another Denied.

STATEMENT.

This matter is before the Commission on the application of Nehalem Mutual Telephone Company, for permission to remove its central office from Mist, Oregon, to Birkenfeld, Oregon, on the grounds of convenience and improvement of service to its subscribers in general.

After due and legal notice to all interested parties, the above-entitled matter came on for public hearing at the town hall, Mist, Oregon, on the ninth day of November, 1921, at the hour of 1:15 o'clock, p. m. at which time and place witnesses were called, sworn, testified and their testimony recorded by the reporter for the Commission.

JURISDICTION.

The Nehalem Mutual Telephone Company is a corporation duly organized and existing under and by virtue of the laws of the State of Oregon, to conduct and operate a telephone business in Columbia County, Oregon. Its principal office and place of business is Mist, Columbia County, Oregon. Said applicant furnishes telephone service generally to the residents and inhabitants of said territory and in such capacity is a public utility and subject to the jurisdiction of this Commission and the provisions of Chapter 279 of the General Laws of Oregon for 1911 and all acts amendatory thereof and supplemental thereto.

SYSTEM.

The present telephone system operated by this company consists of a magneto switchboard and three metallic circuits serving some 67 company stations and in addition the company renders switching service to approximately 30 farmer line subscribers on grounded circuits. Long distance or toll connections are maintained with The Pacific Telephone and Telegraph Company over a metallic circuit from Mist to Clatskanie and many times this route is the only outlet for conversation from Vernonia and vicinity.

SERVICE.

It was contended by some of the stockholders of the Nehalem company that if the exchange was moved from Mist to Birkenfeld, the company would, by cutting over certain subscribers, have a through metallic circuit with only four connected stations from Birkenfeld to Clatskanie. This arrangement, it was asserted, would afford a faster and improved service. But from the exhibits introduced and the testimony offered, it is apparent the company overlooked the fact that the present subscribers living in the vicinity of Mist would necessarily be using the metallic circuit for local conversation and, in addition, the change would require at least two of the farmer lines to build at their own expense approximately five miles of additional line.

IN GENERAL.

From an examination of the entire record and exhibits herein, it appears that the move is not approved by many of the present stockholders of the Nehalem company. Further, the evidence indicates that the proposed move will benefit only the company subscribers residing in the vicinity of Birkenfeld, providing benefits will be gained by any, yet practically the entire cost of same would, under the company's plan, be borne by the farmer line subscribers in the vicinity of Mist.

From a full consideration of the record herein the Commission makes the following:

FINDINGS.

1. That the matters and things named in the application herein are subject to the jurisdiction of the Public Service Commission of Oregon and the provisions of Chapter 279 of the General Laws of Oregon for 1911 and all acts amendatory thereof and supplemental thereto.

2. That the moving of the central office of the Nehalem Mutual Telephone Company from Mist to Birkenfeld, would, in fact, practically eliminate two of the farmer lines from the system, thereby decreasing the value of the service to the remaining subscribers.

3. That the proposed move would not materially speed up or improve the service to many of the subscribers and that the anticipated improvement of the service, if realized, does not appear to warrant the expenditure of money necessary to make the change.

ORDER.

Based upon the foregoing findings and the entire record herein, the Commission makes and enters its order as follows:

It is ordered, That the application herein be, and it hereby is, dismissed.

Dated at Salem, Oregon, this twenty-eighth day of November, 1921.

In re APPLICATION OF McMinnville Local and Long Distance Telephone Company for a Revision of Rates, Rules and Practices.

U-F-370 — Order No. 785.

Decided December 15, 1921.

Increase in Rates Denied — Quality of Service Considered.

STATEMENT.

This matter is before the Commission on the application of the McMinnville Local and Long Distance Telephone Company of McMinnville, Oregon, for permission to increase the schedule of certain telephone rates in the city of McMinnville, Oregon, now on file with this Commission, as designated in P. S. C. Or. 3, on the grounds that said company is installing a more efficient and higher class of service.

After due and legal notice to all interested parties, the above-entitled matter came on regularly for public hearing before the Commission at the city hall, McMinnville, Oregon, on the twelfth day of December, 1921, at the hour of 10:00 o'clock, A. M., at which time and place witnesses were called, sworn, testified and their testimony taken by a reporter for the Commission.

JURISDICTION.

The McMinnville Local and Long Distance Telephone Company of McMinnville is a corporation duly organized and existing under and by virtue of the laws of the State of Oregon, to conduct and operate a telephone business in Yamhill County, Oregon. Its principal office and place of business is McMinnville, Yamhill County, Oregon. Said applicant furnishes telephone service generally to the residents and inhabitants of said territory and in such capacity is a public utility and subject to the jurisdiction of this Commission and the provisions of Chapter 279 of the General Laws of Oregon for 1911 and all acts amendatory thereof and supplemental thereto.

LOCATION.

The present telephone system operated by this company consists of a common battery central office exchange located in the city of McMinnville, Oregon, serving said city and the rural district adjacent thereto, the rates in said city being at issue in this matter.

PLANT.

Applicant's Exhibit Logan No. 2, in this case, when analyzed, shows without question, that over a period of five years, the company has been more interested in dividends than plant maintenance and the record clearly indicates that a large sum of money has been transferred to surplus which should, in equity, have been expended for upkeep of the plant. Such a practice is not only unsound but directly detrimental to the interests of the patrons.

Testimony indicates that the plant and equipment of this applicant has in many sections of the city, been permitted to deteriorate through lax and inefficient management, and that the company today must practically reconstruct the greater portion of its property which would not be the case, had the management exercised that degree of wisdom to be reasonably expected.

RATES.

In our consideration of what are just and equitable rates for the future, we are bound to assume at the outset the substantial correctness of our recent Order No. 666* inasmuch as the same has not been shown to be in error in any material respect. Conditions have not changed sufficiently since the issuance of that order to warrant us in making any radical departure from the conclusions therein set forth, nor has the management, to any appreciable degree, complied with the suggestions offered.

* See Commission Leaflet No. 110, p. 1990.

From the record in this case, it is evident that this utility has not in the past, nor does it now, suffer from insufficient revenues for the class and quality of service rendered, which, as we understand, is not necessarily confined to the mere handling of telephone traffic.

IN GENERAL.

From an examination of the entire record herein, it appears that the applicant, the McMinnville Local and Long Distance Telephone Company, is contemplating the expenditure of additional capital that should increase the efficiency and capacity of its plant located in the city of McMinnville in such a manner as to permit the rendering of somewhat better service. However, the expenditure has not yet been made, nor, in the opinion of this Commission, judging from past performance, is there any present means of determining to what extent this proposed expenditure, if made, will benefit the public.

Therefore, based on the above statement of facts, the Commission makes its findings, as follows:

FINDINGS.

1. That the subject matter and the parties to said above-entitled matter are subject to the jurisdiction of the Public Service Commission of Oregon and the provisions of Chapter 279 of the General Laws of the State of Oregon for 1911, and all acts amendatory thereof and supplemental thereto.

2. That the utility has not complied with the letter and spirit of Order No. 666.*

3. That the fair, reasonable and not unjustly discriminatory rates, rules and regulations to be applied by the McMinnville Local and Long Distance Telephone Company for the kind and quality of service now rendered in McMinnville are those now in force and effect and set out in said company's tariff P. S. C. Or. 3.

4. That the application herein should be denied.

* See Commission Leaflet No. 110, p. 1990.

ORDER.

Based upon the foregoing findings and the entire record herein,

It is ordered. That the application herein be, and it hereby is, denied, and it is so ordered.

Dated at Salem, Oregon, this fifteenth day of December, 1921.

In re APPLICATION OF THE YAMHILL MUTUAL TELEPHONE
COMPANY FOR AUTHORITY TO INCREASE RATES.

U-F-335 — Order No. 789.

Decided December 22, 1921.

Increase in Rates Authorized.

STATEMENT.

This matter is before the Commission on the application of the Yamhill Mutual Telephone Company of Yamhill, Oregon, for permission to increase the schedule of certain telephone rates now on file with this Commission, as designated in its tariff, P. S. C. Or. No. 3, on the grounds that said company under the rates prescribed in said schedule is unable to meet its financial obligations.

After due and legal notice to the public generally and all interested parties, the above-entitled matter came on regularly for public hearing before the Commission, commercial club chambers, at Yamhill, Oregon, on the twelfth day of December, 1921, at the hour of 1:45 o'clock P. M., at which time and place witnesses were called, sworn, testified and their testimony taken by a reporter for the Commission.

JURISDICTION.

The Yamhill Mutual Telephone Company of Yamhill, Oregon, is a corporation duly organized and existing under and by virtue of the laws of the State of Oregon, to conduct and operate a telephone business in Yamhill County,

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Oregon. Its principal office and place of business is Yamhill, Yamhill County, Oregon. Said applicant furnishes telephone service generally to the residents and inhabitants of said territory and in such capacity is a public utility and subject to the jurisdiction of this Commission and the provisions of Chapter 279 of the General Laws of Oregon for 1911 and all acts amendatory thereof and supplemental thereto.

LOCATION.

The present telephone system operated by this company consists of a magneto central office exchange located in the city of Yamhill, Oregon, serving said city and the rural district adjacent thereto, the rates in said city and those for farmer line switching service being at issue in this matter.

ORGANIZATION.

It appears that it was the intention of the organizers of the Yamhill Mutual Telephone Company to operate same as a mutual company and the record in this case clearly indicates that each organized farmers' line must purchase at least one share of stock in the Yamhill company. Through this purchase of stock, the farmer line company is permitted to appoint one member on the board of directors. The present organization consists of a total of eight directors, six of the number being representatives of the country or farmer-owned lines.

The records of the company disclose that a meeting of the board of directors was called before the application herein discussed was submitted to this Commission. It is further shown that six directors were present at this meeting, four of whom were representing the country lines and not a vote was cast against the proposed increase.

SERVICE.

While there were many subscribers present at the hearing, there was little protest as to the class and quality of service rendered and the management was highly com-

mended. Such complaints as were mentioned relative to service were generally admitted to be caused by improper maintenance of the farmer-owned lines, a condition over which the utility has no control.

EXPENSE.

Notwithstanding the fact that this company has been curtailing expenses wherever possible, the annual revenue has been inadequate to defray actual operating expenses and provide a reserve for depreciation, aside from any return on the money invested in plant and equipment.

It is apparent, from the record herein, that the company is being operated at a loss and it has no reserve on hand from which to draw for replacing the present plant and equipment, when same must be retired due to obsolescence or other natural causes. It is highly necessary to have this company operating and it is inevitable, owing to the age of the plant, that some needful repairs be reached at an early date if an adequate service is to be maintained.

RATES.

The rates applied for by the applicant will not produce revenue in excess of the amount required to meet the actual operating expenses, depreciation, taxes and a reasonable return upon the money invested; nor are the rates in excess of those generally charged by other companies for a like service in a similar community.

Therefore, based on the above statement of facts, the Commission makes its findings as follows:

FINDINGS.

1. That the matter and the parties to said above-entitled case are subject to the jurisdiction of the Public Service Commission of Oregon and the provisions of Chapter 279 of the General Laws of the State of Oregon for 1911 and all acts amendatory thereof and supplemental thereto.

2. That as heretofore indicated, the present revenue of this company is inadequate to meet the actual operating

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expenses, depreciation, taxes and a fair return on the money invested; therefore, the present rates, rules and regulations are found to be insufficient, unreasonable, inadequate and unjustly discriminatory and not such as to furnish a basis upon which to predicate efficient service.

3. That the fair, reasonable and not unjustly discriminatory rates, rules and regulations to be applied by the Yamhill Mutual Telephone Company for efficient service in lieu of those now in force and effect are as follows:

	<i>Rate</i>
<i>Business — Unlimited Service:</i>	<i>Per Annum</i>
Individual line	\$18 75
Multi-party line	16 50
<i>Residence — Unlimited Service:</i>	
Individual line	16 50
Two-party line	14 25
Multi-party line	11 25
<i>Switching — Unlimited Service:</i>	
Farmer line, per station.....	6 00

Each farmer line shall be treated as a unit in the matter of collection of accounts for exchange service and shall be responsible for delinquents. All accounts shall be due and payable in equal semi-annual installments on or before January 15 and July 15 of each year during the life of this order.

NOTE: To facilitate the collection of accounts from members of its several farmer lines, it is recommended that each line appoint a secretary or treasurer or other officer whose duty it shall be to make these collections and account for same; further, that each line may discontinue service to any one of its members on its line for non-payment of account.

ORDER.

Based upon the above findings, the Commission hereby enters its order as follows:

It is hereby ordered, That the Yamhill Mutual Telephone Company be, and the same hereby is, authorized to discontinue its present rates, rules and regulations, as specified in P. S. C. Or. No. 3 found to be inadequate and non-compensatory for the service now rendered, and to

substitute in lieu thereof the schedule hereinabove in the findings set forth found to be just, reasonable and not unjustly discriminatory.

It is further ordered, That the rates so authorized shall be considered as maximum rates for the service specified and nothing herein shall be construed as preventing the utility from filing additional rates, rules and regulations as occasion may require for service not so specified and not in conflict with the intent of this or other orders, rules or regulations prescribed by this Commission, and, further provided, that they do not introduce unjust discrimination between individual subscribers or classes of subscribers.

It is further ordered, That immediately upon the establishment of the rates herein authorized, the applicant shall file according to law and the rules of the Commission a tariff containing the rates so established together with all other rates, rules and regulations applicable to the service, and shall cause a copy of that tariff to be posted in a conspicuous place in its main office, and easily accessible for public reference.

It is further ordered, That all other rates, rules and regulations, except as herein set out, shall be and remain as heretofore, and the effective date hereof is January 1, 1922, and it is so ordered.

Dated at Salem, Oregon, this twenty-second day of December, 1921.

In re APPLICATION OF THE HOME INDEPENDENT TELEPHONE
COMPANY OF LA GRANDE, FOR PERMISSION TO INCREASE
CERTAIN TELEPHONE RATES.

U-F-371 — Order No. 788.

Decided December 28, 1921.

**Payment of Percentage of Gross Earnings to City Held to be Double
Taxation and Disapproved — Increase in Rates Authorized.**

STATEMENT.

This matter is before the Commission on the application of the Home Independent Telephone Company, of La Grande, Oregon, for permission to increase the schedule of certain telephone rates at La Grande and Island City, Oregon, now on file with this Commission, as designated in P. S. C. Or. 38, on the grounds that said company is installing a more efficient and higher class of service.

After due and legal notice to all interested parties, the above-entitled matter came on regularly for public hearing before the Commission at the city hall, La Grande, Oregon, on the eighteenth day of November, 1921, at the hour of 10:00 o'clock A. M., at which time and place witnesses were called, sworn, testified and their testimony taken by a reporter for the Commission.

JURISDICTION.

The Home Independent Telephone Company of La Grande is a corporation duly organized and existing under and by virtue of the laws of the State of Oregon, to conduct and operate a telephone business in Union and Wallowa Counties, Oregon. Its principal office and place of business is La Grande, Union County, Oregon. Said applicant furnishes telephone service generally to the residents and inhabitants of said territory and in such capacity is a public utility and subject to the jurisdiction of this Commission and the provisions of Chapter 279 of the General

Laws of Oregon for 1911 and all acts amendatory thereof and supplemental thereto.

LOCATION.

The present telephone system operated by this company consists of seven central office exchanges located in Union and Wallowa Counties, Oregon, one of which is located at La Grande, Oregon, serving the cities of Island City and La Grande, the rates in said cities being at issue in this matter.

SERVICE.

At the present time the exchange at La Grande is equipped with a switchboard of obsolete type, filled to a point of saturation, and additions to the board are impracticable owing to its age and deteriorated condition. The record also shows that this switchboard has been the source of many complaints and much dissatisfaction among the patrons of said company in La Grande as to the quality of service rendered.

NEW INSTALLATIONS.

The applicant has acquired a modern fire proof building centrally located, which is now being remodelled and is installing therein one of the late types of common battery equipment and apparatus, and is also rebuilding pole lines and installing needed cable facilities throughout the city of La Grande. Upon completion of the rearrangements La Grande will be well equipped with one of the very latest types of equipment in one of the most modern exchange buildings in the State of Oregon. The cost of said improvements will amount to more than \$80,000.

FRANCHISE TAX.

The record indicates that under the franchise issued the Home Independent Telephone Company, the city of La Grande requires, under a graduated scale, the company to pay a stipulated percentage of its gross earnings to the

city treasurer. While this practice was more or less general some years ago, it does not meet with the approval of this Commission. The telephone system of La Grande is performing an important and necessary public service, yet under the present plan of providing the cost thereof, only the telephone user contributes; and not only does the telephone user provide the entire cost of maintaining the telephone system for the city, but in addition, he pays for a portion of the cost of the city government through the medium of franchise taxes. In effect, it is double taxation on telephone users.

SALARIES OF OFFICERS.

The testimony of witness Crowe for the company shows that it is the practice of the Home Independent Telephone Company to charge the salaries of its financial agent and directors to operating expense accounts. This practice would be in accordance with prescribed accounting principles providing these men were actually devoting their efforts and attention in an operating department; but, when it is admitted that these salaries are paid in lieu of discount or commissions on financial transactions, to which these officers might be justly entitled, this Commission, in view of its accounting classification, must insist that this utility shall not in the future debit operating expense accounts with other than expenses actually incurred by operation of the property.

IN GENERAL.

From an examination of the entire record herein, it appears that the applicant, the Home Independent Telephone Company, through a large addition of capital, has increased the efficiency and capacity of its plant located in the city of La Grande in such a manner as to render better service generally to its patrons; that it has asked for an increase in rates in said city by reason of such increased investment and bettered service and that the said

rates are not unreasonable nor in excess of the rates collected for a like service by other utilities in similar sized cities.

Therefore, based on the above statement of facts, the Commission makes its findings as follows:

FINDINGS.

1. That the subject matter and the parties to said above-entitled matter are subject to the jurisdiction of the Public Service Commission of Oregon and the provisions of Chapter 279 of the General Laws of the State of Oregon for 1911, and all acts amendatory thereof and supplemental thereto.

2. That by reason of this installation of a modern telephone plant in lieu of the present existing plant, and increased investment and the better service rendered thereby, the rates in P. S. C. Or. No. 38 for the cities of Island City and La Grande on which the present revenues of this utility in Island City and La Grande, Oregon, are based, are inadequate and are found to be insufficient, unreasonable and unjustly discriminatory and not such as to furnish a basis upon which to predicate efficient service.

3. That the fair, reasonable and not unjustly discriminatory rates, rules and regulations to be applied by the Home Independent Telephone Company for efficient service in lieu of those now in force and effect in Island City and La Grande, are as follows:

ISLAND CITY.

	<i>Wall Set Per Month</i>
<i>Business — Unlimited Service:</i>	
Individual line	\$6 00
Two-party line	5 00
Extension, without bell.....	75
Extension, with bell.....	90
<i>Residence — Unlimited Service:</i>	
Two-party line	3 00
Four-party line	2 50
Extension, without bell.....	50
Extension, with bell.....	65
Desk type instrument additional.....	25

LA GRANDE.

	Wall Set Per Month
<i>Business — Unlimited Service:</i>	
Individual line	\$5 00
Two-party line	4 00
Ten-party suburban line (central selective signal).....	3 25
Suburban party line	2 50
Farmer line, switching service.....	1 00
Extension, without bell	75
Extension, with bell.....	90
<i>Residence — Unlimited Service:</i>	
Individual line	3 00
Two-party line	2 50
Four-party line	2 25
Ten-party suburban line (central selective signal).....	2 25
Suburban party line	2 00
Farmer line, switching service.....	60
Extension, without bell.....	50
Extension, with bell.....	65
Desk type instrument additional.....	25

HOTEL PRIVATE BRANCH EXCHANGE, FLAT RATE SERVICE.

	Rate Per Month
<i>Switchboard:</i>	
Non-multiple, with battery power, ringing circuit and switchboard telephone, for each position, per position equipped with not to exceed 15 drops.....	\$2 00
Each additional group 5 drops or fraction thereof.....	20
<i>Trunks:</i>	
First bothway-trunk, individual business line rate.	
Each additional bothway-trunk, individual business line rate, less	50
<i>Stations:*</i>	
Each station not in guest room (subject to mileage if not in building with exchange)	1 00
Each station in guest room.....	50

* Additional charge of 25 cents per month will be made for desk type instrument.

ORDER.

Based upon the foregoing findings, statement and the entire record herein,

It is hereby ordered, That the Home Independent Telephone Company be, and the same hereby is, authorized to discontinue its present rates, rules and regulations pertaining to service in Island City and La Grande, Oregon, as specified in the P. S. C. Or. 38 found to be inadequate and non-compensatory for the service now rendered, and to substitute in lieu thereof the schedule hereinabove in the findings set forth found to be just, reasonable and not unjustly discriminatory.

It is further ordered, That the rates so authorized shall be considered as maximum rates for the service specified and nothing herein shall be construed as preventing the utility from filing additional rates, rules and regulations as occasion may require for service not so specified and not in conflict with the intent of this or other orders, rules or regulations prescribed by this Commission, and, further provided, that they do not introduce unjust discriminations between individual subscribers or classes of subscribers.

It is further ordered, That immediately, upon the establishment of the rates herein authorized, the applicant shall file according to law and the rules of the Commission, a tariff containing the rates so established, together with all other rates, rules and regulations applicable to the service, and shall cause a copy of that tariff to be posted in a conspicuous place in its main offices and each other office affected by this order, and easily accessible for public reference.

It is further ordered, That the above-mentioned rates shall apply only to the cities of Island City and La Grande, county of Union, and that all other rates, rules and regulations, except as herein set out, shall be and remain as heretofore, and the effective date hereof is January 1, 1922, and it is so ordered.

Dated at Salem, Oregon, this twenty-eighth day of December, 1921.

SOUTH CAROLINA.

The Railroad Commission.

**In re APPLICATION OF HOME TELEPHONE COMPANY FOR
INCREASED RATES AND ABOLITION OF FREE SERVICE.**

Order No. 239.

Decided November 17, 1921.

**Owning of Property in which Exchange is Located Advocated — Interest
to be Paid out of Reasonable Return on Entire Investment —
Free Service between Exchanges Held Discriminatory —
Increase in Rates Authorized.**

Application was made for increased rates and for abolition of free service between Georgetown and Andrews.

The question as to whether it was proper for a telephone company to own the property or rent quarters in which the exchange was maintained arose at the hearing. The Commission gave the question unusual consideration, and stated that it had been the experience of the Commission that when a corporation of this kind rented its quarters the rents varied according to conditions existing in different localities; that in rented quarters the company was at all times subject to notice to move, which had been the result in this instance; that the moving of a telephone exchange entailed more costs than the moving of the average utility due to the intricate and delicate instruments and apparatus necessary for the carrying on of telephone service; that it disturbed the service to a great extent, and that the cost of the move finally came out of the revenues received from rate-payers, and that it was right and proper and to the best interest of all concerned that the company own the property in which the exchange was located.

On the subject of a reasonable return the Commission stated that it would not be fair to grant what was usually considered a reasonable return on the capital stock when it was self-evident that there was a great deal more invested in the property than the capital stock; that it would also be unfair to grant rates sufficient to yield a reasonable return on the investment and at the same time grant rates sufficient to take care of interest on outstanding debts; that in this instance the company should take care of the interest on its outstanding obligations from the reasonable return on the entire investment.

The Commission found that the free interexchange service existing between Georgetown and Andrews, a distance of approximately 18 miles, was largely responsible for the financial condition which had existed for some time, and was the one proposition that had caused the company and its patrons to fail in reaching a satisfactory agreement to enable the company to continue to render the service which it was created to perform; that there was no law that warranted or justified any regulatory body in demanding free service between exchanges; that there was approximately \$8,000 invested in the specific property over which this service was rendered; that free service increased the cost of operation by requiring the employment of additional operators; that it increased maintenance to a greater extent than on city lines, from the fact that lines of this kind must necessarily traverse sections which caused more disturbances or interruptions to the service than ordinarily took place in towns or cities; that the service was used by those who were not even subscribers to either of the exchanges reached by the lines; that although the Commission had taken cognizance of the franchise granted by the city of Andrews, wherein free service between Andrews and Georgetown was agreed to be given, yet the Commission could develop no method that would enable the telephone company to comply with other requirements contained in the franchise, and at the same time furnish service at rates that were reasonable and just.

The Commission further found that 6 per cent. per year of the value of the telephone property itself would be fair and equitable as a reserve for depreciation, and that 2 per cent. per year on buildings would be fair and reasonable for the same purpose; that after all necessary expenses incurred in the operation and maintenance, and a return of 8 per cent. on an investment of \$53,000 had been allowed, the present rates would fall short by \$1,600 of producing sufficient income, which amount must be cared for if the company was to continue furnishing service to its patrons.

Held: That the contention for free service could not be sustained, since to render such service would be a clear-cut case of discrimination between subscribers of the exchanges connected by lines over which such service was rendered, many subscribers not demanding, using or needing such facilities for the proper transaction of their business, and yet under such conditions being forced to contribute their proportionate share to the construction, maintenance and operation of such lines for the benefit of their fellow subscribers to the same exchange;

That on and after December 1, 1921, the legal monthly rate for telephone service at applicant's exchange at Andrews should be as follows: business, special line, \$3.50, duplex line, \$3.00; residence, special line, \$2.25, duplex line, \$1.75;

That the uniform rate for farmers' lines should be applied to the Andrews exchange, which is \$3.00 per month for six telephones or less per line, provided the users of such lines construct and maintain their own lines to the city limits and own and maintain their telephone instruments;

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That a toll rate of 15 cents per message of three minutes' duration, and 5 cents per minute for each additional minute or fraction thereof should be charged for messages passing from Georgetown to Andrews and *vice versa*.

REPORT AND ORDER.

This matter came before the South Carolina Railroad Commission on June 29, 1921, on petition of the Home Telephone Company, which company operates exchanges at Georgetown, South Carolina and Andrews, South Carolina. After considering the contents of the petition above referred to the Commission, according to law, published in the Georgetown Times Index, of Georgetown, South Carolina (this being a county paper published each week in the city of Georgetown, South Carolina) notice that a hearing would be held in the office of the Commission at Columbia, South Carolina, on September 7, 1921, at twelve o'clock noon, at which hearing all interested parties were requested to be present or represented. The notice was published for four consecutive weeks as indicated by copies of same now on file in the Commission's office.

As scheduled, the hearing was held, at which time the Georgetown interests were represented by *Attorney Pyatt*, the Andrews interests by *Attorney Levy*, while the Home Telephone Company was represented by its president, *Mr. Barnes*, its vice-president, *Mr. Fraser*, and its counsel, *Mr. C. H. Barron*.

At this hearing the matter of service, financial condition of the telephone company, and the question of furnishing free interexchange toll service between the exchanges at Georgetown, South Carolina and Andrews, South Carolina, were gone into fully. It developed that the Home Telephone Company above referred to was in a critical financial condition and that some relief would have to be obtained if the company was to continue to perform the functions for which it was intended.

Much testimony was given by both sides to the controversy, after which the Railroad Commission of South

Carolina reached the conclusion that it would withhold its decision for a reasonable time, and requested those present representing the public and those present representing the Home Telephone Company to hold such meetings as in their opinion were proper, and, if possible, reach some satisfactory conclusion between the interested parties that would enable the company to continue to render the service which it was created to perform. The Commission waited for quite a while to get the results of such meeting. At the expiration of what the Commission thought was a reasonable time, requests were made of the interested parties to submit to the Commission reports of their investigations, and their agreements if they had been able to reach same. The Commission was informed that a committee had been appointed to employ experts to audit the books of the company and that this would be completed in a few days, at which time the committee appointed for that purpose would report. In course of time this was done. A copy of the report of Searson and Bourke, certified public accountants, was filed with the Commission, which, after a thorough examination, reveals practically the same financial condition as contended by the telephone company.

The report presented by the committee goes into this matter fully and was signed by E. H. Bealy, J. I. Hazard and S. P. Harper. The report of the committee is a liberal one and covers apparently every phase of this company's operations. Along with this report was submitted a copy of the franchise granted by the town of Andrews, South Carolina, to the Home Telephone Company. In this report charges occur of bad management on the part of the officials in charge of these properties.

The one outstanding point is that practically all parties agreed as to the valuation of the property, which in round numbers would be \$53,000.

There has been some question as to whether it would be proper for the telephone company to own its own home, or whether it should rent quarters in which to maintain

its exchange. The Commission has given this proposition an unusual amount of consideration. We have gone into the matter minutely from every angle possible. We have given consideration to the question of this telephone company owning its own home, and have interested ourselves as to whether exorbitant prices were paid for this specific land and building. In this instance we have to differ from some in the contention that it would be better for the telephone company to rent its quarters. The experience of the Commission has been that when a corporation of this kind rents its quarters the rents vary according to conditions existing in the different localities, and most usually vary upwards, very seldom downwards. Then in rented quarters the company is subject at all times, after reasonable notice, to have to move. This has been the result in many instances. The moving of a telephone exchange entails more cost than the moving of the average utility due to the intricate and delicate instruments and apparatus necessary for the carrying on of telephone service. In addition, it always disturbs to a great extent the service while such movements are being perfected, and when such movements become necessary as a matter of fact the cost of same must come out of the revenues of the company which are derived from no other source than the revenues received for the service.

In this instance, part of the property is rented and the rents are properly accounted for and go to the credit of the maintenance of the property, and aside from a purely business proposition we have taken into consideration the interest of the patrons of the company as indicated above and have reached the conclusion that it is right and proper and to the best interest of all concerned that this company own its own home. It also has a tendency to create a property which is subject to taxation, state, county, school and municipal.

Some comment has been made in the different reports and communications that this company maintains auto-

mobiles which could be dispensed with and railroad trains used for the maintenance of certain lines. The Commission has given this thorough consideration, not only in this specific case but in many other similar instances, and finds that telephone service is subject to a great many more conditions that destroy the service than any other utility coming under the jurisdiction of the Commission. When such disturbances occur, if the service is to be maintained they must be immediately looked after. The motor vehicle of the present day is the most rapid and feasible method yet devised for looking after matters of this kind. While in certain instances the actual expense incurred in reaching the point in trouble by automobile may be somewhat more than if a railroad train were used, still when you figure the cost due to the loss of time of employees awaiting arrival of trains (and necessarily they must be paid for such time) it is the opinion of the Commission that aside from the rapidity furnished through motor vehicles it is a saving of funds in the end. This must be correct, as this method is being used today by practically all telephone companies operating in South Carolina.

From the reports shown by the expert accountants, the committee and the telephone company, the automobiles in use have not been listed in the valuation of the property.

The Commission has given much consideration to the statements of mismanagement in a financial way. The Commission is of the opinion that in place of "bad management" the words "unsystematized bookkeeping" could be substituted. Many items appear in all the reports that the Commission cannot give cognizance to, and we will undertake to refer to a few of those.

One is an amount due by subscribers and agents of over \$4,000. Most assuredly a telephone company should have no accounts due from subscribers and agents, so far as telephone service is concerned, as it is expected that telephone rentals be paid in advance, and if the company has through leniency or other actions allowed debts of this

kind to accumulate, this amount should not be brought over, charged as a deficiency, and the paying subscribers taxed to make up such deficiency, and this the Commission will not allow. Under the rules of the Commission when a subscriber fails or refuses to pay for service, the same should be discontinued. There could be no legal or moral right to tax the paying subscribers of any telephone exchange with excess rates to maintain service for a non-paying subscriber, and this cannot be done. Therefore, the Commission can take no cognizance of this item.

There also appears an item of \$5,445 which evidently is balance due on land and buildings. At the same time the land and buildings are listed at their true value. Therefore, the Commission takes no cognizance of that item.

We note another item of dividends declared of \$413.04. No company should attempt to declare dividends when it is clearly shown that the company is operating at a deficit. Therefore, the Commission dismisses this item.

Another item of interest accrued of more than \$1,000 is not considered by the Commission. This amount should be cared for by the return on the investment. The Commission could not assess rates to pay interest on debts that have been incurred in creating the value of the property and then grant a return on the entire valuation of the property. This item likewise has been set aside.

There is also an undistributed construction expense of more than \$2,000 which the Commission understands was for the construction of the Andrews plant. This item should not have been listed as construction expense but should have taken its place either in the capital stock or in the indebtedness due by this company, as the Andrews exchange is properly accounted for in the valuation of the entire property.

Another item of much interest to the Commission is depreciation, which carries an amount of \$14,694.80. How this amount was obtained the Commission is not in posi-

tion to state, but evidently it has been brought over from year to year until it has reached these enormous figures. The Commission cannot and does not give credence to this item. Depreciation should and must be cared for each year and at the end of the year that amount must be dropped and the depreciation for the next year considered.

In going into this matter of depreciation the Commission has been diligent in its efforts to get all the information possible. Depreciation must necessarily be based on certain conditions. The very best information the Commission has been able to obtain from disinterested sources is that telephone construction, especially the aerial portion of same, exposed to salt water atmosphere, is subject to greater depreciation than is equipment of similar kind located away from such conditions. Aside from this, it must be that there is a greater hazard from wind storms nearer the coastal region than would be sustained by such aerial systems located further from the coast. In order to be absolutely fair to all parties, we have decided that 6 per cent. per year on the telephone property itself would be fair and equitable, but we cannot allow this much depreciation on the buildings; and in reference to these we have allowed 2 per cent. per year, which we consider a fair depreciation on buildings.

Other sums of more or less importance have shared a like fate with those outlined above, and after much consideration the Commission has reached the conclusion that in the end only two main factors enter into this controversy.

First, the valuation of the property, which apparently is agreed upon as being around \$53,000. This is about the only point in the controversy that all parties seem to be agreed upon. The Commission is disposed to take the figures as given as a proper valuation.

Second, the amount of revenue now obtained, and the amount necessary for the actual maintenance of the property, to care for operating expenses and a reasonable

return on the property, which is only fair to all parties at interest.

It would not be fair to grant what is usually considered a reasonable return on the capital stock when it is self-evident that there is a great deal more investment in the property than the capital stock mentioned. At the same time it would most assuredly be unfair to grant any corporation rates sufficient to yield a reasonable return on the investment, and at the same time grant rates sufficient to take care of interest on outstanding debts. It would resolve itself into this — that a company could put in \$5,000 capital stock, borrow as much as the party making the loan would loan, even to the extent of as much as \$20,000, but it would not be fair to grant rates sufficient to take care of the \$25,000 investment outright to the company and allow the company to list as expense the interest on the \$20,000 and tax rates to care for same. Therefore, in this instance the company must take care of its interest and its outstanding obligations from the reasonable return on the entire investment. The Commission is of the opinion that neither the company nor its patrons could legally or morally demand more.

Some stress has been laid on the condition of what is known as this company's Pawley Island property. Investigation shows that this branch has never earned anything like operating expenses, that the service has never been properly patronized by those presumed to use same on Pawley Island. Therefore, instead of being an asset this specific portion of this company's property has developed into a liability without any hope of it becoming an asset any time in the near future. This portion of the company's operations will be properly cared for in the order following this preamble.

There are some other items that in the opinion of the Commission no doubt should have been listed in the valuation of the property. It must be that this company has some stock on hand, in fact our information is that they

have quite an amount of stock, including wire, cable, some new telephones and quite a number of telephones that could be put into service with minor repairs. Then, as above outlined, we do not find where the automobiles and other vehicles have been listed, although these are necessary for the upkeep and maintenance of the lines, also poles, etc. However, the Commission is disposed to let this matter alone for the present and accept the valuation as above indicated.

We have also gone into the matter of wages paid all parties connected with this company. We can see no place to cut at this time. Most assuredly when the operators' salaries are considered no individual desiring telephone service would wish this specific item reduced. As to the salary of the president and vice-president, both together would not make the average salary for an official of this kind.

We have also gone into the matter of traveling expenses of the president and find that this item amounts to \$40.00, which could not affect the telephone rates either one way or the other.

We find that the salaries and wages paid to others connected with this company are as low as could possibly be expected when you consider the ability required to make adjustments, repairs, etc., to such delicate and intricate instruments and apparatus as the telephone service requires.

This brings the Commission to that bone of contention in this controversy, which the Commission is of the opinion is the real cause of the conditions which have been existing for quite a while and those which are existing today, and which is the one proposition that has no doubt caused the patrons of the company to fail in reaching a satisfactory agreement—free interexchange service between Georgetown and Andrews, a distance of approximately 18 miles.

This specific matter has been thrashed out before this, as well as many other state commissions, time and time again. There is no law that any commission, so far as this Commission knows, has been able to find that would warrant or justify any regulatory body in demanding service of this kind free of charge. There are no doubt many things that enter into this controversy. First, in this instance, there is in round numbers \$8,000 invested in this specific line. It increases the cost of operation by the employment of additional operators to care for this service; it increases maintenance to a greater extent than on city lines from the fact that lines of this kind necessarily must traverse sections which cause more disturbances or interruptions to the service than ordinarily take place in towns or cities. In many instances the service is used by those who are not even subscribers to either of the exchanges reached by such lines. Complaints are frequently received in regard to service of this kind that parties actually needing the lines cannot secure the use of same because of the fact that the lines are being held by messages of no import. The time was when the telephone was regarded merely as a social affair, but time has demonstrated that this is not a correct interpretation of the object of the telephone, but that it is a business proposition and a necessity for the successful transaction of the business of the country that such lines are intended to serve.

The further fact must be considered that if the law did permit the Commission to demand a free service there could be no legal or moral right to demand a free service from any individual or corporation for the benefit of the public. The contention has often been made that the rates as made for the exchanges include this service. This contention cannot be sustained, as most assuredly it would be a clear-cut case of discrimination between the subscribers of the exchanges connected by such lines, many subscribers not demanding, not using and not needing such facilities for the proper transaction of their business, and yet under

this condition being forced to contribute their proportionate share to the construction, maintenance and operation of such lines for the benefit of their fellow subscribers to the same exchange. Therefore, there can be no free interexchange service.

Calculations have developed that with all the revenue received by the Home Telephone Company at Georgetown and Andrews for telephone service, rents, etc., after taking care of the actual necessary expenses incurred in the operation and maintenance of the properties, and a return on the investment of 8 per cent., there is an actual deficit of more than \$1,600 per annum. This amount must be cared for if the company is to continue to furnish the service to its patrons that it must furnish so long as it is in business.

A careful investigation discloses the fact that the rates now in effect in Georgetown are a little under the uniform rate for exchanges of that size. The rates now in effect at the Andrews exchange are very much under the usual or uniform rates for exchanges of that size. With a 16 $\frac{2}{3}$ per cent. increase the Andrews exchange would still be farther from the uniform rate than the Georgetown rate is at present, and a 16 $\frac{2}{3}$ per cent. increase in the rate for telephone service at Andrews would only yield in round numbers \$500 per annum, and still leave a rate lower than for other exchanges of similar size. This would leave remaining a deficit of approximately \$1,100 that the company will be forced to care for through the charges for toll service between these exchanges, which in the opinion of the Commission they can do. However, in the event that this fails then necessarily some other action will have to be taken.

No provision has been made for dividends as most assuredly such funds must come out of the reasonable return on the investment, and the dividends should be regulated in proportion to the financial conditions existing in our entire country at this specific time.

The Commission has also given due cognizance to the franchise granted by the city of Andrews to the Home Telephone Company. We have noted the agreement contained therein and the Commission desires it understood that it is not attempting to abrogate the agreements contained in this franchise, but under the law it is required of the Commission to make what in its opinion is a just and reasonable rate, and if the agreement as contained in Section No. 15 of the franchise as to free service between Andrews and Georgetown is to be continued the Commission cannot at this time develop any method that will enable the Home Telephone Company to comply with the other requirements as contained in other paragraphs of said franchise, and the sole purpose of the Commission's action is to do and cause to be done the things that are required of telephone companies operating in South Carolina at such a rate as will be exactly what the law requires — reasonable and just.

The Home Telephone Company in its petition requests that the rates for the Andrews exchange be increased as follows:

	<i>Per Month</i>
Special line business telephone from.....	\$3 00 to \$4 00
Duplex line business telephone from.....	2 50 to 3 00
Special line residence telephone from.....	2 00 to 2 50
Duplex line residence telephone from.....	1 50 to 2 00

This would approximately put the Andrews exchange rates at what the Georgetown exchange rates are at present, Georgetown with about 400 telephones, while Andrews has about 110 telephones. It is a well known fact that the worth of telephone service is regulated by the number of telephones connected with the exchange. The greater the number of the telephones the greater the value of the service, the fewer the number of telephones the less the value of such service. Therefore, that portion of the company's petition is refused.

In view of the facts hereinbefore set forth, as well as many others that could be mentioned,

It is ordered, That on and after December 1, 1921, the legal rate for telephone service furnished through the Andrews exchange shall be as follows:

	<i>Per Month</i>
Special line, business telephone.....	\$3 50
Duplex line, business telephone.....	3 00
Special line, residence telephone.....	2 25
Duplex line, residence telephone.....	1 75

It is further ordered, That the uniform rate for farmers' lines be applied to the Andrews exchange, which is \$3.00 per month for six telephones or less per line, provided the users of such lines construct and maintain their own lines to the city limits, and own and maintain their own telephone instruments.

It is further ordered, That service be offered the people supposed to be served by the Pawley Island branch of the Home Telephone Company's lines for a period of sixty days. If a sufficient number of subscribers take the service over this line to warrant its operation then the line shall be continued, otherwise if a sufficient number of interested parties do not subscribe to the service within the period of sixty days the service over this portion of the company's lines shall be discontinued, the equipment to be removed and used in construction or repair work on the lines now in use or hereafter to be put in use from the Andrews and Georgetown exchanges.

It is further ordered, That a toll rate of 15 cents per message of three minutes' duration, and 5 cents per minute for each additional minute or fraction thereof, shall be charged for messages passing from Georgetown to Andrews, and *vice versa*.

This order to become effective December 1, 1921, and to remain in effect until the further orders of this Commission.

November 17, 1921.

WISCONSIN.

Railroad Commission.

In re APPLICATION OF THE BANGOR TELEPHONE COMPANY
FOR AUTHORITY TO ISSUE \$10,000 OF ITS CAPITAL STOCK.

S.B.-1707.

Decided November 18, 1921.

Issue of Stock Authorized.

CERTIFICATE.

Be it remembered, that on the eleventh day of October, 1921, the Bangor Telephone Company, a public service corporation, applied to the Railroad Commission of Wisconsin for authority to issue \$10,000 of stock, and for that purpose filed with the Commission a statement duly signed and verified by its president and secretary as required by Section 1753-9 of the statutes;

That it appears from said statement that the corporation desires to issue \$10,000 of its capital stock for the purpose of securing funds with which to pay for additions, extensions and improvements to its property and plant and all for purposes properly chargeable to capital account;

That said corporation duly and satisfactorily complied with the requirements of said statute, and the Commission, after considering said statement and the evidence before it, found and determined that the proposed issue of stock is lawful and for lawful purposes, and reasonably necessary for the purposes of the corporation.

Now, therefore, the Railroad Commission of Wisconsin hereby authorizes the Bangor Telephone Company, a Wisconsin corporation, to issue stock as follows:

One thousand shares of its capital stock of the par value of \$10.00 each, making a total issue of \$10,000.

Said stock shall be issued for money only and at not less than the par value thereof and the funds derived there-

from shall be used for the purposes set forth in the second paragraph of this certificate.

Said Bangor Telephone Company shall file with the Commission verified statements showing the amount received from the sale of the stock herein authorized to be sold; such statements shall be filed within thirty days of the time when the unreported amount received exceeds the sum of \$2,500.

Said Bangor Telephone Company shall file with the Commission verified statements showing in detail the items to which the entire proceeds of the sale of said stock have been applied; such statements shall be filed within thirty days of the time when the unreported amounts expended exceed the sum of \$2,500.

Said Bangor Telephone Company shall not issue the stock herein authorized or receive any money therefor, either directly or indirectly, until this certificate shall have been recorded upon the books of the corporation.

In witness whereof, these presents have been signed and attested by the Railroad Commission of Wisconsin at its office in the Capitol in the City of Madison, Wisconsin, this eighteenth day of November, 1921.*

* On the same day the Commission authorized an issue of \$1,275, par value, of capital stock for the purpose of purchasing the exchange of the Amacoy Telephone Company, *In re Murry Farmers Telephone Company* (S. B.-1701).

In re APPLICATION OF THE WISCONSIN TELEPHONE COMPANY
TO INCREASE RATES.

U-2485.

Decided November 30, 1921.

**Company's Valuation Accepted as Fair Value—Increase in Rates
Authorized.**

OPINION AND DECISION.

Application in this case was filed with the Commission on April 20, 1921. In its petition the applicant sets forth that owing to the increased cost of labor and materials it has for some time furnished telephone service at its Manitowoc exchange without earning a reasonable return upon its investment. Authority is therefore requested to discontinue the present rates and to place in effect increased rates. The following table sets forth the more important rates of the present and proposed schedules:

TABLE 1.
PRINCIPAL RATES OF PRESENT AND PROPOSED SCHEDULES
MANITOWOC EXCHANGE, WISCONSIN TELEPHONE COMPANY.

	<i>Net Rates Present</i>	<i>Per Month Proposed</i>
Business, one-party	\$3 50	\$4 00
Business, two-party	2 50	3 50
Business, receiving line	1 75	Discontinue
Business extension	60	1 00
Residence, one-party	2 00	2 50
Residence, two-party	1 50	2 00
Residence, four-party .....	.....	1 75
Residence extension, desk.....	60	75
Rural	1 25	2 00
Switching service for roadway stations.....	25	75

Hearings in the matter were held in Madison, Wisconsin, on May 24, 1921, and in Manitowoc, Wisconsin, on September 21, 1921. The appearances were as follows: *J. F. Krizek* and *F. M. McEniry* for the applicant; *C. E. Teit-*

gen, city attorney, and *M. Georgenson*, mayor, for the city of Manitowoc; *Charles Hempke*, *W. H. Spencer*, and *Charles Kornely* for the Manitowoc and Northern Telephone Company; *Charles Gustavson* for the Rapids and Western Telephone Company; *Emil Vetting*, *John Wilharms*, and *Charles Fehrman* for the Silver Creek Telephone Company.

The Manitowoc exchange is of the common battery or central energy type and served 3,138 stations on December 31, 1920, classified as follows:

Business, one-party	217
Business, two-party	270
Business extension	161
Residence, one-party	160
Residence, two-party	1,481
Residence extension	74
P. B. X. and public pay stations.....	397
Roadway service stations	363
Miscellaneous stations	15
	<hr/>
	3,138

At the time of the hearing the applicant submitted an exhibit showing the amount of the investment upon which it contended it should be allowed to earn. This investment consisted of the following items:

Local exchange investment December 31, 1920.....	\$157,332 10
Prorate of Milwaukee general investment.....	12,884 00
Additional investment necessary to restore the plant to normal working condition	30,000 00
	<hr/>
TOTAL INVESTMENT	\$200,216 10

The above investment is inclusive of any intangible capital and includes no charges for organization, franchises, good will, etc.

The representatives of the city of Manitowoc took exception to this investment, however, and requested the Commission to make a physical valuation of the exchange prop-

erty in Manitowoc. In compliance with their request a valuation was made as of October 14, 1921, the results of which showed beyond question that the investment claimed by the company was conservative and could be accepted as a rate base for purposes of this case.

DEPRECIATION.

The depreciation charges necessary to meet the annual requirements of the applicant have been determined from computations in which normal lives have been considered for the various items of depreciable property and in which consideration has been given to a 3 per cent. sinking fund basis. The results of the computations indicate that \$10,293 must be provided for depreciation.

OPERATING EXPENSES.

The following table shows the detail of the operating expenses and revenues of the Manitowoc exchange for the period January 1, 1915, to June 30, 1921. The revenues and expenses set forth in this table pertain to the exchange system only, the revenues and expenses of the toll business having been excluded as they are being given consideration in a separate proceeding involving the toll business of the State as a whole :

REVENUES AND EXPENSES MANITOWOC EXCHANGE, WISCONSIN TELEPHONE COMPANY.

	Year ended December 31					Six Months Ended June 30, 1931	
	1915	1916	1917	1918	1919	1920	
Revenues:							
Exchange service revenue.....	\$37,469 01	\$40,277 62	\$43,325 75	\$44,777 85	\$50,219 83	\$53,857 59	\$28,783 08
Miscellaneous revenue.....	269 55	451 09	362 13	315 61	576 22	504 26	126 25
Licenses revenue — Dr.....	1,656 58	1,778 31	1,923 24	1,978 59	2,184 23	2,345 21	1,254 08
TOTAL OPERATING REVENUE.....	\$36,081 98	\$38,950 40	\$41,764 64	\$43,114 87	\$48,611 82	\$52,016 64	\$27,655 25
Exchange Expenses:							
Maintenance:							
Supervision.....	\$311 07	\$321 84	\$609 65	\$919 05	\$972 57	\$839 20	\$406 97
Repairs, aerial plant.....	1,052 98	1,140 91	2,295 39	1,629 35	2,339 61	2,699 32	1,370 71
Repairs, underground plant.....	19 69	26 94	48 82	117 70	98 79	41 39	50 45
Repairs of central office equipment.....	748 81	722 40	1,355 16	1,303 14	1,432 32	1,173 03	622 99
Repairs of station equipment.....	472 37	685 85	1,289 30	1,197 32	1,306 11	1,726 07	1,003 99
Repairs of buildings and grounds.....	5 90	55	1 10	4 44	40 78	69 30	1 54
Station removals and changes.....	946 73	737 34	1,136 56	1,154 36	993 72	1,010 64	542 60
Other maintenance expenses.....	.....	.....	1 48	.....	3 34	7 05	24 44
TOTAL MAINTENANCE EXPENSES.....	\$3,557 55	\$3,635 83	\$6,737 46	\$6,325 36	\$7,187 24	\$7,566 00	\$4,023 69
Traffic:							
Central office superintendence.....	\$578 11	\$677 86	\$910 00	\$1,245 75	\$1,400 22	\$1,826 33	\$940 19
Operators' wages.....	3,253 98	3,403 96	4,684 47	6,826 23	9,304 51	15,028 85	7,798 94
Central office supplies and expenses.....	448 41	475 77	810 46	1,362 60	1,937 46	2,236 21	1,074 31
Pay station expenses.....	14 27	10 74	8 22	10 19	58 60	52 83	8 46
Other traffic expenses.....	1 22	33 28	308 32	229 52	179 67	167 42	9 60
TOTAL TRAFFIC EXPENSES.....	\$4,295 99	\$4,601 61	\$6,721 47	\$9,674 29	\$12,880 46	\$19,311 64	\$9,831 50

[illegible]

It will be noted from the foregoing table that the operating ratio at Manitowoc increased from 37.5 per cent. in 1915 to 73.7 per cent. in 1920 and that the cost per station increased from \$5.76 in 1915 to \$12.32 in 1921. The larger portion of the increase in operating expenses has been due to increases in salaries paid to operators and other employees, and as the Industrial Commission has recently increased the minimum wage to be paid to women in cities of over 5,000 from 22 cents an hour to 25 cents an hour a further increase in operators' wages is to be expected. With operators' wages remaining fixed, it is unlikely that any material reduction can be effected in other telephone salaries, as certain differentials must be maintained between the salaries paid the various groups of employees.

As the operating expenses at Manitowoc during the six-months' period ended June 30, 1921, are not abnormal and compare favorably with operating expenses of similar exchanges of the Wisconsin Telephone Company and independent telephone companies, we conclude that they can be accepted, with a few adjustments, as a basis for estimating present normal operating expenses. The adjustments necessary in order to properly reflect present operating costs include an allowance for additional operators' wages made necessary by the Industrial Commission's order effective on August 1, 1921, increasing the minimum wage for women in cities of over 5,000 population from 22 cents an hour to 25 cents an hour; an allowance for additional office rent, and an allowance for increased taxes. In the following table of estimated results of operation under the company's proposed rates, we have computed exchange revenues by applying the company's proposed annual rates to the average number of stations in service during the six-months' period ended June 30, 1921, and have projected the company's operating expenses for the same period to a yearly base with allowances for the necessary increased expenses:

ESTIMATED ANNUAL REVENUES AND EXPENSES
UNDER PROPOSED RATES AND PRESENT OPERATING EXPENSES,
MANITOWOC EXCHANGE.

Revenues:

Exchange revenue	\$78,188 00
Miscellaneous revenue	500 00
Licensee revenue — Dr.....	3,541 00
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TOTAL REVENUES	\$75,147 00

Expenses:

Maintenance	\$8,047 00
Traffic	21,513 00
Commercial	6,671 00
General and miscellaneous.....	2,481 00
Depreciation	10,293 00
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TOTAL OF ABOVE ITEMS.....	\$49,005 00
Taxes	4,720 00
Rentals and uncollectable accounts.....	972 00
<hr/>	
TOTAL EXPENSES	\$54,697 00
Balance available for return upon investment.....	20,450 00
Per cent. return upon investment.....	10.2

It will be noted from the above table that the probable return under the proposed rates would be in excess of a reasonable return. The applicant, however, is unquestionably entitled to some increase in rates and after a careful consideration of the facts in the case we conclude that the rates hereinafter provided for are just and reasonable and will yield sufficient revenues to provide for the necessary operating expenses, depreciation, and a fair return upon the property.

It is, therefore, ordered, That the Wisconsin Telephone Company be, and hereby is, authorized to discontinue the present schedule of rates at its Manitowoc exchange and to substitute therefor the following schedule:

	<i>Rates Per Month</i>	
	<i>Gross</i>	<i>Net</i>
Business, one-party	\$1 25	\$1 00
Business, two-party	3 75	3 50
Business extension .....	.....	1 00
Residence, one-party	2 50	2 25
Residence, two-party	2 15	1 90
Residence, four-party	2 00	1 75
Rural service	2 25	2 00
Switching service to roadway companies, per station. ....	.....	62½

All other rates, rules and regulations as set forth in the applicant's petition and not otherwise herein provided for are hereby authorized.

These rates may be made effective for service rendered on and after the first day of the month subsequent to the date of this order.

Dated at Madison, Wisconsin, this thirtieth day of November, 1921.*

In re APPLICATION OF THE RICE LAKE AND NORTHEASTERN
TELEPHONE COMPANY.

U-2562.

Decided December 3, 1921.

**Increase in Rates Authorized — Discontinuance of Central Office
Authorized.**

OPINION AND DECISION.

Application in this case was filed with the Commission on August 11, 1921. In the application the petitioner requests authority to discontinue its present rate of \$12.00 per year for telephone service and to establish a rate sufficient to meet the operating expenses and to pay a 6 per cent. return upon the investment.

* On the same day, increased rates were authorized *In re West Menasha Telephone Company* (U-2588).

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Hearing in the case was held in Rice Lake on October 18, 1921, at which time *J. E. Horseman* appeared for the applicant. There were no appearances in opposition.

The Rice Lake and Northeastern Telephone Company is a rural telephone company furnishing service to approximately 100 subscribers on 5 circuits having a pole line mileage of 57 miles and a wire line mileage of 107 miles. At the present time the company operates an exchange at Lake, but as the expense of operating an exchange for 100 subscribers is very high it requests authority to discontinue the exchange and to run the 5 circuits into the exchange of the Barron County Telephone Company at Rice Lake, a distance of $8\frac{1}{2}$ miles from Lake. As such a procedure would result in some economy of operation and also in a probable improvement of the service, we shall authorize the company to discontinue its Lake exchange and to run the lines into the Rice Lake exchange of the Barron County Telephone Company. The rate to be allowed in this case will, therefore, be based upon the cost of furnishing service with the central office service at Rice Lake.

At the time of the hearing the applicant submitted the following estimate of the cost of operation of the 5 rural lines based upon an average of 100 subscribers and the additional investment necessary to run the lines into Rice Lake:

Central office expense.....	\$600 00
Switching charge at Rice Lake \$6.00 per station, per year.	
Wire plant expense	720 00
Lineman's wages \$30.00 a month.	
Auto and livery hire \$30.00 a month.	
Station expense	79 00
Repairing telephones \$12.00 a year.	
Batteries, 200 at $32\frac{1}{2}$ cents each.	
Commercial expense.....	120 00
Clerk's salary preparing and collecting bills \$10.00 a month.	

General expense	\$60 00
General officer's salary \$5.00 a month.	
Undistributed expense	190 00
Directory expense \$25.00 per year.	
Pin rental from Barron County Telephone Company, \$165 per year.	
Taxes	30 00
Depreciation, 6 per cent. on property and plant value of \$3,419.60	205 17
Return upon investment, 6 per cent. on property and plant value of \$3,419.60.....	205 17
TOTAL EXPENSE	\$2,209 34

The above estimate of operating cost is fairly conservative and we believe that if adequate service is furnished very little reduction can be effected in these expenses. On the basis of the above statement the average cost per station is approximately \$22.00 per year. When allowance is made for toll and miscellaneous revenues, however, we believe that a rate of \$21.00 per year will be sufficient to provide adequate revenues and will be reasonable.

Before authorizing an increase in rates, however, we wish to call the applicant's attention to the fact that the lines are rather heavily overloaded and that under normal conditions no increase in rates would be granted until the loading had been reduced to conform with the standard prescribed by the Commission. In view of the fact, however, that the territory served is very sparsely populated and that the subscribers live at an unusually long distance from the central office, we shall not require the company to reduce the loading at the present time. We do recommend, however, that the loading of the lines be reduced to a maximum of 15 subscribers per line at as early a date as is practicable.

It is, therefore, ordered, That the Rice Lake and North-eastern Telephone Company be, and hereby is, authorized to discontinue its present rate for telephone service and to substitute therefor the following rate:

	<i>Per Quarter</i>	
	<i>Gross</i>	<i>Net</i>
Rural telephone service.....	\$6 00	\$5 25

Billing and Discount Rules:

Subscribers are to be billed quarterly at the gross rates and to have their bills discounted 75 cents if paid before or during the first month of the quarter for which service is billed. Bills paid during the second month are to be discounted 50 cents and during the third month 25 cents. No discount may be given on any bills paid after the expiration of the discount period.

It is further ordered, That the Rice Lake and North-eastern Telephone Company may discontinue its central office at Lake and may obtain its central office service from the Barron County Telephone Company at Rice Lake.

Rates authorized herein may be made effective for service rendered on and after the first day of the month following the date of this order.

Dated at Madison, Wisconsin, this third day of December, 1921.

In re APPLICATION OF THE HARMONY TELEPHONE COMPANY
FOR AUTHORITY TO INCREASE RATES.

U-2589.

Decided December 7, 1921.

**Increase in Rates Authorized — Free Service between Exchanges
Disapproved but Allowed to Continue.**

OPINION AND DECISION.

Application in this case was filed with the Commission on October 11, 1921. In its application the petitioner sets forth that the revenues under the present rates are inadequate to meet the operating expenses and to provide properly for depreciation and return upon the investment.

Authority is requested to discontinue the present uniform rate of \$18.00 per year for telephone service and to establish the following rates:

	<i>Per Month</i>	
	<i>Gross</i>	<i>Net</i>
Multi-party rural business service.....	\$2 75	\$2 50
Multi-party, rural residence service.....	2 25	2 00
Single party, rural business or residence service.....	3 25	3 00
Rural business or residence extension telephones.....	.....	1 00

Hearing in the case was held in Madison on November 4, 1921. *George A. Platten*, president, appeared for the applicant. There were no appearances in opposition.

The Harmony Telephone Company operates a rural telephone system with an exchange at Harmony serving approximately 170 subscribers. In addition to local service the applicant gives its subscribers free service with the subscribers of the Wisconsin Telephone Company exchanges at Peshtigo and Marinette.

The property and plant value as reported by the applicant on November 1, 1921, was \$9,796.11 which is approximately \$57.50 per station. This value, we believe, is sufficiently representative of the fair value of the property to be accepted for purposes of this case.

Subsequent to the hearing the applicant submitted a statement of the operating results of the company for the ten-months' period ended October 31, 1921. This statement was prepared by a certified public accountant and is reproduced below:

Revenues:

Exchange telephone earnings.....	\$2,337 60
Earnings from connecting lines.....	14 35
Miscellaneous non-operating revenues.....	56 78
Adjustments	34

TOTAL REVENUES \$2,409 07

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Expenses:

Central office expense	\$1,759 74
Wire plant expense.....	379 01
Substation expense	439 71
Commercial expense	121 41
General expense	151 19
Taxes	68 22

TOTAL EXPENSES BEFORE DEPRECIATION.....	2,919 28
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DEFICIT BEFORE PROVIDING FOR DEPRECIATION.....	\$510 21
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On the basis of the results of operation for the first ten months of the current year it appears that the applicant's total loss for the year will be approximately \$612 before making any provision for depreciation or return upon the property. As the operating expenses are very reasonable, when consideration is given to the fact that the applicant pays the Wisconsin Telephone Company \$6.00 per station in order to afford its subscribers free service to Marinette and Peshtigo, there is no doubt that the applicant is entitled to an increase of rates.

The rates proposed by the applicant will increase the annual revenues by approximately \$1,050, but even this increase in revenue is scarcely more than enough to provide properly for depreciation and will not provide an adequate return upon the investment. We, therefore, find that the rates proposed are reasonable insofar as the revenue they will produce is concerned.

There is some question in our mind, however, whether the present practice of furnishing free service to Marinette and Peshtigo should be continued instead of abolishing the practice and putting the service upon a toll rate basis. Under the present practice the service costs each subscriber \$6.00 per year regardless of the use made of the service, and this no doubt results in some discrimination as the service is not equally valuable to all subscribers. That considerable use of the service is made, however, is evidenced by the fact that complaint has been made

that the trunk lines to Peshtigo and Marinette are inadequate to carry the service and that if the free service is to be continued additional trunk lines will be necessary. Traffic studies made on November 8 and 9 bear out this complaint as they indicate that there are over 200 calls per day with Marinette and over 100 calls per day with Peshtigo, with a ratio of nearly 15 per cent. of busy calls with Marinette and a ratio of nearly 30 per cent. of busy calls with Peshtigo.

In view of the fact, however, that no opposition was offered to the continuance of the present practice of furnishing free service to Marinette and Peshtigo and that we have no data indicating that the present practice is unduly discriminatory, we shall allow the present practice to be continued and will authorize the rates requested with the exception of the rate for extension telephones which, we believe, is too high. The applicant, however, should proceed immediately to install additional circuits to Peshtigo and Marinette in order to afford more adequate service.

If the applicant at any time in the future desires to discontinue the free service with Marinette and Peshtigo and place the service on a toll rate basis, the Commission will be willing to entertain an application for a revision of rates.

It is, therefore, ordered, That the Harmony Telephone Company be, and hereby is, authorized to discontinue its present rate for telephone service and to substitute therefor the following rates:

	<i>Per Quarter</i>	
	<i>Gross</i>	<i>Net</i>
Multi-party, rural business service.....	\$8 25	\$7 50
Multi-party, rural residence service.....	6 75	6 00
Single party, rural business or residence service.....	9 75	8 00
Rural business or residence extension telephones.....		2 25

Discount and Billing Rules:

Subscribers are to be billed quarterly in advance at the gross rates and to have their bills discounted 75 cents if paid before or during the first month of the quarter for which service is billed. Bills paid during the second month are to be discounted 50 cents and during the third month 25 cents. No discount may be given on bills not paid by the end of the quarter.

Rates authorized herein may be made effective for all service rendered on and after January 1, 1922.

Dated at Madison, Wisconsin, this seventh day of December, 1921.

In re APPLICATION OF THE WISCONSIN TELEPHONE COMPANY
FOR AUTHORITY TO INCREASE RATES.

U-2526.

Decided December 21, 1921.

**Application to Increase Rates in Order to Permit Installation of Common
Battery Service Denied.**

OPINION AND DECISION.

The application of the Wisconsin Telephone Company seeking authority to increase its rates at its Shawano exchange was filed with the Commission June 6, 1921. Hearing in the matter was held at Shawano, Wisconsin, September 23, 1921, at which time the following appearances were entered: for the Wisconsin Telephone Company, *J. F. Krizek* and *F. M. McEniry*, for the city of Shawano, *P. F. Winters*.

The lawful rates now in effect at Shawano are for magneto service and were authorized by the Commission November 1, 1920.* They are as follows:

* See Commission Leaflet No. 109, p. 1508.

	<i>Gross</i>	<i>Net</i>
Business, one-party	\$3 25	\$3 00
Business, two-party	2 75	2 50
Business extension .....	.....	1 00
Residence, one-party	2 25	2 00
Residence, two-party	2 00	1 75
Residence, four-party	1 50	1 25
Residence extension .....	.....	75
Rural service	2 25	2 00
Switching service .....	.....	62½

The applicant alleges in its petition that it has been asked by some of its subscribers to install common battery service in the city of Shawano. It requests that permission be given to charge the following schedule of rates when the common battery service is available:

	<i>Net per Month</i>
Business, one-party	\$4 00
Business, two-party	3 50
Residence, one-party	2 50
Residence, two-party	2 25
Residence, four-party	2 00

P. B. X. trunks, business, same as one-party business.

P. B. X. trunks, residence, same as one-party residence.

The applicant introduced testimony at the September 23 hearing to show that it had been approached by members of a local business organization and by certain other subscribers to furnish common battery service in Shawano. The present application, we understand, was made for the purpose of determining the subscribers' position with reference to the installation of this service, and to request authorization for such rates as would produce the necessary revenues to cover the operating expenses and to earn a reasonable return on the investment in common battery service.

In its application preceding our authorization of November 1, 1920,* the applicant asked for rates to cover the

* See Commission Leaflet No. 109, p. 1508.

costs of the magneto service now being given, including capital charges on its investment at that time plus these charges on certain additions necessary to improve the service and to bring the plant up to normal pre-war conditions. The rates authorized at that time were sufficient only to meet these conditions, and it was not intended that they should meet the costs of any other type of service than that being rendered at the present time.

Apparently some of the applicant's subscribers construed the company's statement of improved service to mean common battery service, and the question has now arisen with them why the company has not furnished such service.

We believe that the statements made above sufficiently state the facts. We might add that the rates authorized in our previous order* and effective November 1, 1920, are not adequate to meet the conditions of common battery service. The direct operating expenses for common battery service in Shawano would not greatly exceed the operating expenses for a magneto plant. The capital charges, however, would be much larger due to the increased investment. The switchboard at present in use could not be used for common battery service. An entirely different type of board is necessary. Due to the fact that the quarters now used for the telephone office are small, it would be necessary to set up and wire a new board in a different building. This would require a rearrangement of the wire plant (cables) and the central office distributing frames. In connection with the rearrangement of wire plant it would be necessary to place practically all existing open wires in cables. All instruments used by subscribers at present would necessarily be discarded and common battery instruments installed. It can readily be seen that the institution of common battery service would require the rebuilding or the replacement of the greater part of the applicant's existing plant.

* See Commission Leaflet No. 109, p. 1508.

The present attitude of the applicant's subscribers as reflected in the testimony of the September 23 hearing would indicate that they do not desire common battery service, if its installation necessitates an increase in the present rates.

The applicant's representatives also stated at the hearing that the company did not wish to install common battery service unless there was a popular demand for this type of service.

Under the existing circumstances, we believe that the application of the petitioner should be denied.

It is, therefore, ordered, That the application of the Wisconsin Telephone Company seeking authority to increase its rates at its Shawano exchange be, and the same hereby is, denied.

Dated at Madison, Wisconsin, this twenty-first day of December, 1921.

In re APPLICATION OF THE HOME TELEPHONE COMPANY OF
DURAND, FOR AUTHORITY TO INCREASE RATES.

U-2524.

Decided December 27, 1921.

Increase in Rates Fixed to Become Applicable on Condition.

OPINION AND DECISION.

Application in this case was filed with the Commission on May 31, 1921. In its petition the company alleges that the revenues under the present rates are inadequate to meet the operating expenses and to provide properly for depreciation and return upon the present investment which has recently been considerably increased by placing a portion of the distribution system underground and by making a part of the lines metallic.

The following table sets forth the present and proposed rates:

	Monthly Net Rate	
	Present	Proposed
Business, single party, metallic.....		\$2 75
Business, single party, grounded.....	\$2 00	2 00
Business, two-party, metallic.....		2 50
Business, two-party, grounded.....	1 50	1 50
Residence, single party, metallic.....		1 75
Residence, single party, grounded.....	1 25	1 25
Residence, two-party, metallic.....		1 50
Residence, two-party, grounded.....	1 00	1 00
Residence, four-party, metallic.....		1 25
Residence, four-party, grounded.....	1 00	1 00
Residence, eight-party, metallic.....		1 00
Residence, eight-party, grounded.....	1 00	1 00
Desk sets, residence.....		25
Extension telephones, business.....	50	1 00
Extension telephones, residence.....	50	75
Rural switching service.....	38 $\frac{1}{3}$	50

Hearing in the case was held in Madison on June 21, 1921. The appearances were *J. A. Pratt* and *W. E. Paul* for the applicant, *C. A. Ingram* for the city of Durand, and *Phil Fox* for the Inter-County Telephone Company.

At the time of the hearing the applicant submitted several exhibits dealing with the classification of subscribers in service on June 18, 1921; the operating revenues and expenses for the year ended December 31, 1920, and for the five months ended May 31, 1921; and the probable revenue which would be received under the proposed rates. Subsequent to the hearing the applicant submitted a detailed valuation of the property as of July 1, 1921.

The valuation submitted by the applicant has been checked by the Commission's engineers who estimate that the reproduction cost new of the property on July 1, 1921, was \$20,261 and that the reproduction cost, less depreciation, was \$14,245. On the basis of the valuation, we believe that an allowance of \$2,835 would be reasonable to provide for the depreciation and return upon the investment. Inasmuch, however, as the rates which will be authorized herein will be made contingent upon the applicant's furnishing full metallic service to all its subscribers and that this will entail a further increase in the investment, a somewhat larger amount will be necessary for these purposes.

The following table shows the revenues and expenses as submitted by the company for the five months ended May 31, 1921:

STATEMENT OF REVENUES AND EXPENSES OF THE HOME TELEPHONE COMPANY OF DURAND, WISCONSIN, FOR THE FIVE MONTHS ENDED MAY 31, 1921.

Operating Revenues:

Subscriber telephone earnings.....	\$2,621 00	
Switching service earnings.....	814 29	
Commission on tolls.....	290 84	
		<hr/> \$3,726 13

Operating Expenses:

Central Office Expense:

Operators' salaries	\$1,125 34	
Other labor	125 00	
Fuel and light.....	123 45	
		<hr/> \$1,373 79

Wire Plant Expense:

Labor	356 00	
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Substation Expense:

Labor	\$275 00	
Materials and supplies.....	106 64	
		<hr/> 381 64

Commercial Expense:

Labor	\$250 00	
Supplies	1 08	
		<hr/> 251 08

General Expense:

Labor	375 00	
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Undistributed:

Insurance	\$87 00	
Printing	28 75	
Auto supplies	76 47	
Repairs on auto and tools.....	377 62	
Miscellaneous	8 80	
		<hr/> 578 64

Taxes	140 00	
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TOTAL EXPENSES BEFORE DEPRECIATION..... 3,456 15

BALANCE	\$269 98
Non-operating revenue	154 50

Balance available for depreciation and return upon investment	\$424 48
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On the basis of the above statement it would appear that the applicant would earn approximately \$1,000 a year for depreciation and return upon the investment which would be entirely inadequate. The operating expenses as reported by the company, however, are excessive in some respects and cannot be accepted as a basis for determining rates without considerable modification. The charges to operating expenses for labor, exclusive of operators' wages, during the five months amounted to \$1,381, or to approximately \$3,300 a year. As stated in our decision* of June 19, 1920, we believe this amount is entirely too high for a company serving less than 400 local subscribers and having no rural lines to keep in repair. In the decision* of June 19, 1920, we allowed \$2,100 to cover all labor charges, exclusive of operators' wages, and we believe that this amount is ample. The items auto supplies and repairs on auto and tools amount to \$454.09 which projected to an annual basis would amount to \$1,092. This amount is grossly excessive and will be reduced to \$225 a year, the amount allowed in our decision* of June 19, 1920. This amount we feel is liberal inasmuch as the territory directly served by the applicant is only a mile in radius, which is scarcely large enough to warrant the use of a car for work which would properly be chargeable to operating expenses. The balance of the operating expenses appear reasonable and will be accepted.

With the foregoing adjustments to the operating expenses, the balance available for depreciation and return upon the investment is increased to an amount of approximately \$3,077 which, with the investment as at July 1, 1921, is liberal.

When the applicant has completed making its system full metallic and has reduced the loading of its local lines to a maximum of four subscribers, which we believe is the maximum loading under which satisfactory local service can be

* See Commission Leaflet No. 104, p. 1330.

furnished, the investment will be considerably increased and will justify a slight increase in rates.

It is, therefore, ordered, That until the Home Telephone Company shall have completed making its system full metallic and shall have reduced the loading of its local circuits to a maximum of four subscribers per line, it shall continue in effect the present rates as set forth in the body of this decision.

It is further ordered, That when the service department of the Commission reports that the applicant has complied with the foregoing conditions, a supplementary order will be issued authorizing the following rates:

	<i>Per Month</i>	
	<i>Gross</i>	<i>Net</i>
Business, one-party, desk or wall set.....	\$2 75	\$2 50
Business, two-party, desk or wall set.....	2 25	2 00
Residence, one-party, wall set.....	2 00	1 75
Residence, two-party, wall set.....	1 75	1 50
Residence, four-party, wall set.....	1 50	1 25
Residence, desk set, extra.....		25
Business extension, wall or desk set.....		1 00
Residence extension, wall or desk set.....		75
	<i>Per Quarter</i>	
Rural switching charge		1 50

It is further ordered, That jurisdiction be retained in this case in order that a supplementary order may be issued when in our judgment service conditions warrant an increase.

Dated at Madison, Wisconsin, this twenty-seventh day of December, 1921.

In re APPLICATION OF THE NEW CASHTON TELEPHONE COM-
PANY FOR AUTHORITY TO INCREASE RATES.

U-2551.

Decided December 27, 1921.

**Increase in Rates Authorized — Toll Charges Made Effective — Division
of Toll Rates Between Companies Fixed.**

SUPPLEMENTARY OPINION AND DECISION.

On November 23, 1921, the Commission entered its order* upon the application of the New Cashton Telephone Company for authority to increase its rates. The Commission provided that the following rates which were found to be reasonable should be made effective when proper service which complied with standard service requirements is furnished:

	<i>Per Month</i>
One-party business	\$2 25
Two-party business	2 00
One-party residence	2 00
Four-party residence	1 75

Above rates to be subject to a discount of 25 cents if paid during the current month.

	<i>Per Quarter</i>
Rural grounded telephone	\$5 50

Subject to a discount of 75 cents if paid during the first month of the quarter; 50 cents if paid during the second month of the quarter, and 25 cents if paid during the last month of the quarter.

Our service department reports that the service requirements have now been complied with in such a way as to justify the increase in rates. The above rates will therefore be authorized to be made effective as of January 1, 1922.

The Commission in its order* of November 23, 1921, further ordered that a toll rate of 5 cents per message should be placed in effect commencing ten days from the date of

* See Commission Leaflet No. 121, p. 225.

the order or upon the furnishing of clear toll lines between Cashton and Bloomingdale and between Cashton and Dell, if such toll lines should not be available within ten days from the date of the order.

Subsequent to the date of our order the applicant petitioned that we modify the order to provide that the toll charges be made effective without requiring that clear toll lines be provided. This petition was made upon the grounds that the traffic over the lines was not sufficient to warrant the maintenance of clear toll lines. In substantiation of this claim the applicant submitted a traffic study covering a period of seventeen days which indicated that the traffic over the lines on a free basis was not very heavy and that upon a toll basis would probably be very light. In view of this fact we believe that our order should be modified to provide that the toll rates be made effective for a reasonable trial period without requiring that clear lines be provided. Jurisdiction in the matter will be retained, however, in order that we may require that clear toll lines be furnished if the traffic warrants such action.

It is, therefore, ordered, That the New Cashton Telephone Company be, and hereby is, authorized to discontinue its present rates and to establish the following rates:

	<i>Per Month</i>
One-party business	\$2 25
Two-party business	2 00
One-party residence	2 00
Four-party residence	1 75

Above rates to be subject to a discount of 25 cents if paid during the month for which service is billed.

	<i>Per Quarter</i>
Rural grounded telephones.....	\$5 50

Subject to a discount of 75 cents if paid during the first month of the quarter; 50 cents if paid during the second month of the quarter, and 25 cents if paid during the last month of the quarter.

It is further ordered, That a toll rate of 5 cents per message shall be made effective for calls between Cashton and

Bloomington and between Cashton and Dell. One-fourth of the revenue from this toll rate, whether for originating or terminating business, shall be paid to the Bloomington Telephone Company or to the Dell Telephone Company, as the case may be, and the balance retained by the New Cashton Telephone Company to compensate it for its central office work and for the line furnished by it.

It is further ordered, That jurisdiction be retained in this case in order that if in the judgment of the Commission the toll traffic between Cashton and Bloomington or between Cashton and Dell should warrant the maintenance of a clear toll line, a supplementary order may be issued requiring the furnishing of a clear toll line between the aforementioned places.

Rates as authorized herein may be made effective for service rendered on and after January 1, 1922.

Dated at Madison, Wisconsin, this twenty-seventh day of December, 1921.

In re APPLICATION OF THE BABCOCK TELEPHONE COMPANY
FOR AUTHORITY TO INCREASE RATES.

U-2493.

Decided December 28, 1921.

Increase in Rates Authorized.

SUPPLEMENTARY ORDER ON REHEARING.

Application was filed with the Commission on April 25, 1921, by the Babcock Telephone Company for authority to increase rates. Hearing was set for May 18, 1921, at Madison, but there were no appearances. After some effort had been put forth by the Commission with no results to obtain sufficient cost data to enable us to pass upon the reasonableness or unreasonableness of the proposed rates with fairness to both the consumers and the applicant, decision* was rendered November 15, 1921, dismissing the

* See Commission Leaflet No. 121, p. 214.

case on the grounds that insufficient evidence had been rendered.

Application was made December 1, 1921, for a rehearing which was granted and the rehearing was held at Madison on December 21, 1921, at which *J. Q. Daniels*, president of the Babcock Telephone Company, appeared for the applicant. There were no appearances in opposition.

The Babcock Telephone Company, an organization in which a majority of the subscribers are also stockholders, operates a telephone system in Babcock, Wood County, and in the territory tributary thereto for 50 subscribers who are served on four full metallic lines composed of 30 miles of poles and 65 miles of wire. Connection is made with the Pittsville exchange where the subscribers of the applicant receive unlimited service. The line connecting the two exchanges is 11 miles long and half is owned by each of the two companies concerned.

The rate applicable for the subscribers is \$1.25 per month per subscriber for all subscribers. Authority is requested to place the following schedule in effect for the reason that the present rate is inadequate to yield sufficient revenue to meet the operating expense:

<i>Local Subscribers:</i>	<i>Per Month, Per Subscriber</i>
Business telephone	\$2 00
Residence telephone	1 25
Rural subscribers	1 50

The investment of the Babcock Telephone Company in the plant and property totals \$4,525. Although this amounts to \$90.50 per subscriber, an item considerably over the average for a utility of its size, it appears to be reasonable in view of the fact that the plant was constructed in 1916 when the prices of materials and labor used in construction were high and in view of the fact that the wire mileage averages 1.3 miles per subscriber. Since the matter of the actual investment does not enter actively into this case, we will not take up this matter further than to state that for the purposes of this decision we will accept the investment

value at \$4,525. The company has never paid any dividends but has to meet the interest on a note of \$1,350 held by a local bank.

The operating expenses in part actual and in part estimated are shown below :

OPERATING EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 1921.

Switchboard operation	\$480 00
Rent	60 00
Light and fuel.....	30 00
Batteries	35 00
Maintenance	105 64
Salaries, secretary and treasurer.....	125 00
<hr/>	
TOTAL	\$835 64

The revenue under the present rates would not be in excess of \$775 probably, so that a deficit in operating expenses of \$60.00 would be realized. The proposed rates would yield a revenue as follows :

REVENUE FROM PROPOSED RATES — YEAR 1922.

Business subscribers, 6 at \$24.00 per year.....	\$144 00
Residence subscribers, 10 at \$15.00 per year.....	150 00
Rural subscribers, 34 at \$18.00 per year.....	612 00
<hr/>	
TOTAL	\$906 00

After deducting the operating expenses from the revenue we find that approximately \$71.00 remains to meet the depreciation charges and to provide for a reasonable return upon the investment. In view of the fact that the balance of \$71.00 will yield less than 2 per cent. upon the investment for depreciation, taxes and return, we believe that the rates should be allowed.

It is, therefore, ordered, That the applicant, the Babcock Telephone Company, be, and the same hereby is, authorized to discontinue its present rate and substitute therefor the following schedule of rates:

<i>Local Subscribers:</i>	<i>Per Month, Per Subscriber</i>
Business telephones	\$2 00
Residence telephones	1 25
Rural subscribers	1 50

Rates herein authorized shall be effective for service rendered on and after January 1, 1922.

Dated at Madison, Wisconsin, this twenty-eighth day of December, 1921.

In re APPLICATION OF THE OAKFIELD TELEPHONE COMPANY
FOR AUTHORITY TO INCREASE RATES.

U-2599.

Decided December 29, 1921.

Increase in Rates Authorized and Toll Charges Fixed.

OPINION AND DECISION.

Application in this case was filed with the Commission on October 31, 1921, by the Oakfield Telephone Company, a public utility operating a telephone exchange in Oakfield, Wisconsin, and owning 6 rural metallic lines terminating in the exchange of the Wisconsin Telephone Company at Fond du Lac.

In the present application the petitioner seeks authority to increase the rate for rural telephones on the 6 lines connected to the Fond du Lac switchboard from \$1.50 net per month to \$1 85 net per month, and to increase the toll rate of its subscribers for messages to Fond du Lac from 5 cents to 10 cents for each five minute message. No other increase in rates is requested.

Hearing in the matter was held in Madison on November 21, 1921. The appearances for the applicant were *W. E. Bristol*, secretary, and *F. M. Barber*, manager. There were no appearances in opposition.

The present rate of \$1.50 for telephone service on lines connected to the switchboard of the Wisconsin Telephone

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Company at Fond du Lac was established by the Commission in an order* dated January 25, 1919, after an investigation of the cost of furnishing the service. At that time the applicant paid the Wisconsin Telephone Company \$5.00 a year per telephone for switching service. At the present time the cost of switching service is \$9.00 per station, or an increase of \$4.00 per station which is approximately the amount of the increase in rate which the applicant requests. As other operating costs have increased somewhat since the date of our former investigation, there can be no question but that the rate requested is reasonable and it will be authorized.

Toll service between Oakfield and Fond du Lac is furnished by the applicant over two metallic lines. At the present time the rate for subscribers of the Oakfield Telephone Company connected to the company's switchboard at Oakfield is 5 cents for a five-minute message. The rate for all other persons is 10 cents for a five-minute message. Of these rates the Oakfield Telephone Company pays 3 cents a message to the Wisconsin Telephone Company which leaves the applicant only 2 cents a message on the greater percentage of the traffic. This amount the applicant contends is inadequate to pay the cost of the service and to provide properly for depreciation and return upon the investment.

As the proposed rate is the standard toll rate for such service and as the granting of the applicant's request will do away with the present discrimination in the rate for Oakfield subscribers and other persons the rate requested will be authorized.

It is, therefore, ordered, That the Oakfield Telephone Company be, and hereby is, authorized to discontinue its present rates for rural service on lines connected to the Fond du Lac switchboard of the Wisconsin Telephone Company and for toll service to Fond du Lac for Oakfield subscribers and to establish instead the following rates:

* See Commission Leaflet No. 87, p. 1211.

	<i>Per Month</i>	
	<i>Gross</i>	<i>Net</i>
Rural telephones on lines directly connected to the		
Fond du Lac switchboard.....	\$2 10	\$1 55

The above rate to be subject to the company's present billing and discount rule.

Toll messages of five minutes between Oakfield and Fond du Lac, subscribers and non-subscribers alike, 10 cents.

Rates as authorized herein may be made effective for service rendered on and after January 1, 1922.

Dated at Madison, Wisconsin, this twenty-ninth day of December, 1921.

WYOMING.

Public Service Commission.

In re APPLICATION OF THE PLATTE VALLEY TELEPHONE COMPANY FOR AUTHORITY TO ESTABLISH RATES FOR SERVICE.

No. 230.

Decided November 15, 1921.

Rates Established.

FINDINGS AND ORDER.

On November 9, 1921, Mr. R. C. Patterson, general agent of the Platte Valley Telephone Company, appeared before the Commission and presented informal application praying for permission to establish rates to cover telephone service to be rendered in the town of Yoder, Wyoming.

Applicant states that during the period when the town of Yoder was being constructed the telephone company was largely depended upon to establish communication to the nearby points as well as the more distant points, and that a toll station and small capacity switchboard had been installed in the town of Yoder.

Applicant further states that the present equipment is not adequate to meet the increasing demands for telephone service in said town and that recently the residents of that town requested the telephone company to establish a permanent exchange and to construct suitable exchange lines to furnish local and long distance service.

The telephone company desires to comply with this request, but before proceeding with the construction of the new exchange, etc., wishes to establish a schedule of rates to cover the service to be furnished so that contracts may be taken for the furnishing of the service as soon as possible.

The schedule of rates submitted by the applicant corresponds fully with the schedules of the company in

effect in the towns of Guernsey, Lingle and Torrington, Wyoming.

The Commission has given the matter due consideration and finds that the schedule of rates proposed by the applicant is reasonable and fair and should be authorized.

It is, therefore, ordered, That the Platte Valley Telephone Company be, and that company is hereby, authorized to establish and put into effect the following schedule of telephone exchange rates to cover service to be furnished in the town of Yoder, Wyoming:

Item	Description	Annual Rate	
		Gross	Net
1	Individual, business telephones.....	\$51 00	\$48 00
2	Individual, residence telephones.....	33 00	30 00
3	Party, business telephones.....	45 00	42 00
4	Party, residence telephones.....	30 00	27 00
5	Party, rural, business telephones.....	33 00	30 00
6	Party, rural, residence telephones.....	27 00	24 00
7	Service station, business telephones.....	21 00	18 00
8	Service station, residence telephones.....	12 00	9 00
9	Business, extension telephones.....	12 00	12 00
10	Residence, extension telephones.....	6 00	6 00
11	Joint users, business telephones.....	12 00	12 00
12	Joint users, residence telephones.....	6 00	6 00
13	Extra charge for any desk stands.....	3 00	3 00
14	Intercommunicating system, not less than 5 subscribers' stations	18 00	18 00
15	Discount of 25 cents per month on each main or initial station if paid on or before the tenth day of the current month.....	3 00	.....
16	Service station discount of 75 cents per quarter where billed quarterly, in advance, or its equivalent if billed for a greater or lesser period, and if paid on or before the tenth of the current billing or initial month of period billed.		

Further ordered, That this schedule of rates shall become effective upon the completion of the telephone plant in the town of Yoder, Wyoming, and shall remain in force until changed or abrogated by further order of this Commission.

Dated at Cheyenne, Wyoming, this fifteenth day of November, 1921.

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American Telephone and Telegraph Company
Legal Department
195 Broadway, New York, N. Y.

COMMISSION LEAFLET No. 123

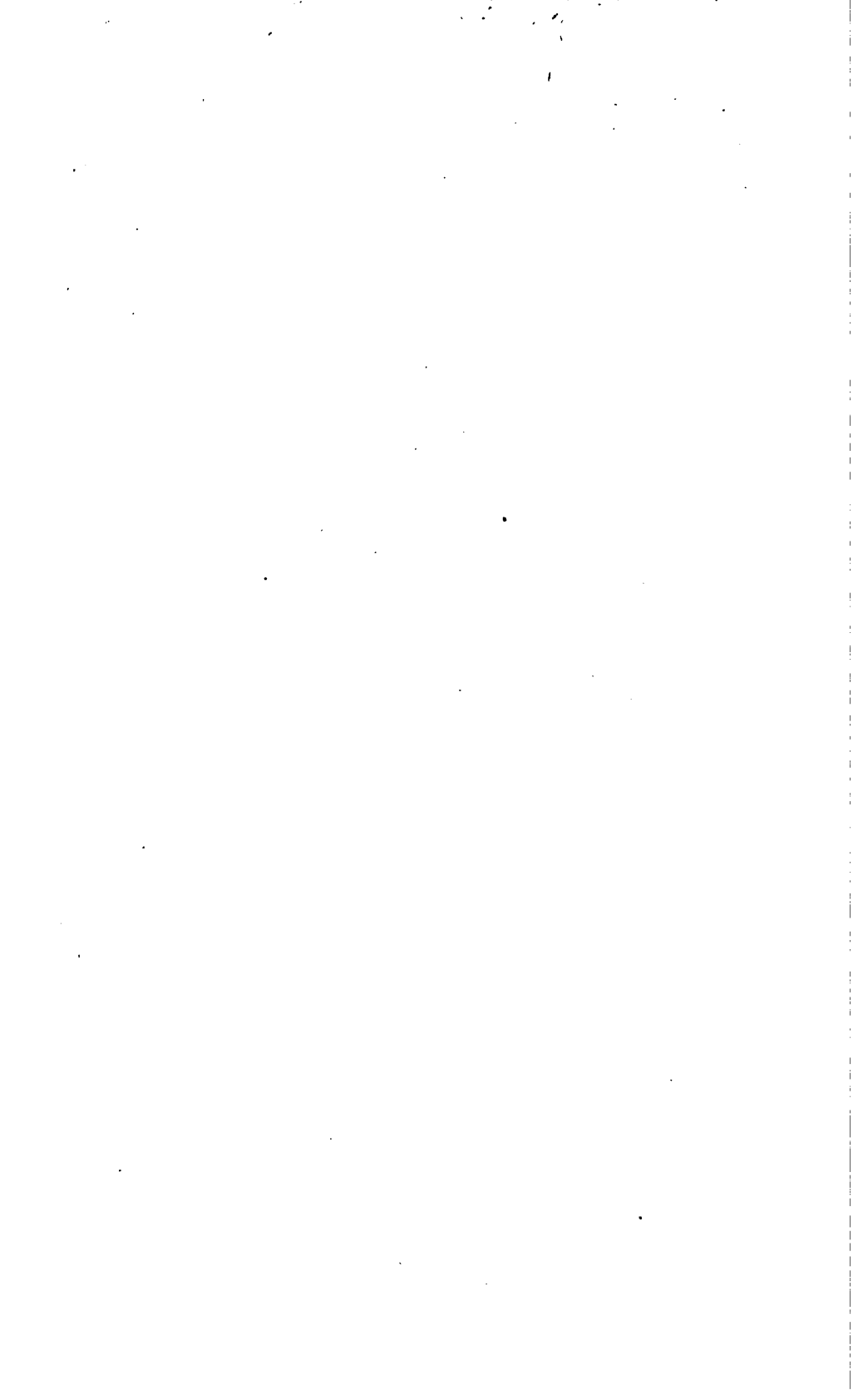
**Recent Commission Orders, Rulings and Decisions
from the following States:**

**Alabama
California
Florida
Georgia
Illinois
Indiana
Kansas
Michigan
Minnesota**

**Missouri
Nebraska
New York
Ohio
Oregon
South Dakota
Washington
West Virginia
Wisconsin**

**and from
Interstate Commerce Commission**

MARCH 1, 1922



INTERSTATE COMMERCE COMMISSION.

In re APPLICATIONS UNDER SECTION 407 OF THE TRANSPORTATION ACT, 1920, AS AMENDED BY ACT OF CONGRESS APPROVED JUNE 10, 1921, RELATING TO THE CONSOLIDATION OF CORPORATIONS AND PROPERTIES ENGAGED IN FURNISHING TELEPHONE SERVICE.

Decided November 4, 1921.

Requirements of Applications for Consolidation of Telephone Companies.

ORDER.

The matter of applications under the above title being under consideration,

It is ordered, That such applications shall set forth the following information:

- (a) Corporate name of each applicant.
- (b) The state or states under the laws of which each applicant is organized.
- (c) A brief description of the physical properties owned and operated by each applicant, giving the state and municipality in which the properties covered by the application are located.
- (d) A brief statement of the proposed plan of consolidation or acquisition with a copy of any tentative agreement or agreements entered into by the applicants respecting such plan.
- (e) A brief statement of the reasons relied upon by the applicants to show that the proposed plan of consolidation or acquisition will be of advantage to the persons to whom service is to be rendered and in the public interest.
- (f) Whether the consolidated company will be subject to the Interstate Commerce Act.

It is further ordered, That the following procedure shall govern the execution and filing of and subsequent proceedings upon the application:

The original application shall be signed by each applicant and attested by its corporate seal, if any, and shall be verified by an executive officer of each applicant, which

verification shall show, among other things, that the affiant is duly authorized to verify the application.

The original application and five copies for the use of the Commission shall be filed with the secretary of the Commission, Washington, D. C.

Upon receipt of the application, the Commission will fix a time and place for a public hearing thereon and will thereupon give reasonable notice in writing to the governor of each of the states in which the physical property affected, or any part thereof, is situated and to the state public service commission or other regulatory body, if any, having jurisdiction over telephone companies and to such other persons as it may deem advisable.

Procedure subsequent to such hearing shall be governed by Rules 14 and 15 of the Commission's Rules of Practice insofar as the same may be applicable.

November 4, 1921.

In re JOINT APPLICATION OF THE ROCK COUNTY TELEPHONE COMPANY AND THE WISCONSIN TELEPHONE COMPANY FOR A CERTIFICATE THAT THE ACQUISITION BY THE WISCONSIN TELEPHONE COMPANY OF THE PROPERTY OF THE ROCK COUNTY TELEPHONE COMPANY WILL BE OF ADVANTAGE TO THE PERSONS TO WHOM SERVICE IS TO BE RENDERED AND IN PUBLIC INTEREST.

Finance Docket No. 1612.

Decided November 25, 1921.

Consolidation of Properties Approved — Rates and Service being within Control of State Commission Competition Held no Longer to Exist.

REPORT.

The Rock County Telephone Company, hereinafter referred to as the Rock County company, and the Wisconsin Telephone Company, hereinafter called the Wisconsin

company, on October 13, 1921, filed a joint application pursuant to the provisions of Section 5 of the Interstate Commerce Act, as amended by Act of Congress approved June 10, 1921, amending Section 407 of the Transportation Act, 1920, for a certificate that the acquisition by the Wisconsin company of the property of the Rock County company will be of advantage to the persons to whom service is to be rendered, and in the public interest.

Upon receipt of such application we fixed a time and place for a public hearing thereon and thereupon gave reasonable notice in writing to the Governor and the Railroad Commission of the State of Wisconsin, the only state in which the physical property affected, or any part thereof, is situated. A hearing was held pursuant to such notice.

The Rock County company is engaged in furnishing local and long distance telephone service in the city of Janesville, Rock County, Wisconsin, and in the territory surrounding that city. It maintains a complete switchboard and wire plant in Janesville, serving approximately 2,315 subscribers. It also performs switching service for a number of rural lines in that vicinity and owns certain toll lines connecting its exchange with those of other companies in neighboring municipalities. It has outstanding capital stock of the par value of \$126,200. Its indebtedness consists of first mortgage bonds of the principal amount of \$36,100, and \$42,600 of notes payable.

The Wisconsin company owns and operates a separate exchange in Janesville, serving 3,550 subscribers, and also switches a number of rural lines. The company also owns and operates exchanges in most of the principal cities in Wisconsin, which are connected by toll lines for the transmission of long distance messages both within and beyond the confines of the State. Its capital investment at its Janesville exchange on December 31, 1920, according to the findings of the Railroad Commission of Wisconsin, was \$286,221.24. Its capital stock is owned by the American Telephone and Telegraph Company.

The two companies have entered into a contract which provides, in effect, that the Rock County company shall transfer to the Wisconsin company all of its physical property except its central office building in Janesville, for the sum of \$190,000, of which \$20,000 is to be paid in cash upon delivery of a satisfactory deed of conveyance of the property, and the remainder covered by certain notes of the Wisconsin company maturing on or before five years from their date, bearing interest at the rate of 7 per cent. per annum, and secured by a mortgage covering all of the property of the Wisconsin company at Janesville. The Wisconsin Commission has heretofore approved the contract and authorized the Wisconsin company to issue the securities therein provided for, and has also by order* established a schedule of rates effective for the consolidated exchange, which it is estimated, will serve about 5,143 stations. Making an allowance to cover the proportion of value of the general office equipment assignable to this exchange, and to cover the cost of unifying the exchanges, the Wisconsin Commission finds that the aggregate fixed capital investment in used and useful property of the consolidated exchange will be \$470,000, including an allowance for materials and supplies and working capital. The rates authorized, on the basis of this aggregate investment range from 60 to 70 per cent. higher than those in effect at the separate exchanges, and it is stated by the Wisconsin Commission that these rates "conform generally with the schedules which have recently been authorized" in other localities of similar size. By a supplemental order† that Commission has also dealt with the subject of obsolescence, and has found that the Wisconsin company may charge to its property and plant accounts a sum not exceeding \$64,800, representing the value of useful property acquired, which will remain in use after the physical unification of the two exchanges has been effected. Such

* See Commission Leaflet No. 116, p. 291.

† See Commission Leaflet No. 116, p. 307.

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order further provides that the remainder of the purchase price shall be charged by the Wisconsin company to its surplus account, or be amortized as a deduction from income over a period of not to exceed ten years.

For many years the telephone-using public at Janesville has been subjected to the inconvenience and expense attendant upon the maintenance of duplicate telephone plants in the same community. It is pointed out that business and professional men, must as a matter of course become subscribers of both exchanges; that the duplicate wire plants unnecessarily encumber the streets and the dual maintenance and operating expense ultimately falls upon the telephone user; and that fundamentally there can be no economic justification for continued competition in a business which is in reality a natural monopoly. It further appears that all matters affecting rates and service of the two companies are within the supervisory control of the State Commission; therefore no actual competition can exist, and all attempts to maintain artificial competitive conditions are likely to result in financial embarrassment to one or the other of the utilities involved. A number of years ago an attempt was made at Janesville to reduce the inconvenience resulting from this duplication by recourse to compulsory physical connection of the two exchanges for the transfer of local, as well as long distance, messages from one system to the other, each such transfer carrying a charge of 5 cents, paid by the subscriber at whose station the call originated and accruing to the company completing the connection. It appears, however, that such arrangement has not proven adequate to meet the situation. Local opinion is unanimous that nothing short of a unified service will solve the difficulty and that even with the high exchange rate, after such unification has taken place, the consolidation will in the long run be of advantage to the community as a whole.

Upon the facts presented, we find that the proposed acquisition, as set forth in the joint application herein, will be of advantage to the persons to whom service is

to be rendered and in the public interest. A certificate to that effect will be issued.

CERTIFICATE.

A hearing having been had in this proceeding, and full investigation of the matters and things involved therein having been had, and said Division having, on the date hereof, made and filed a report containing its findings of fact and conclusions thereon, which said report is hereby referred to and made a part hereof;

It is hereby certified, That the acquisition by the Wisconsin Telephone Company of the property of the Rock County Telephone Company as described in said report will be of advantage to the persons to whom service is to be rendered and in the public interest.

November 25, 1921.

In re JOINT APPLICATION OF THE OHIO BELL TELEPHONE COMPANY AND THE SANDUSKY HOME TELEPHONE COMPANY FOR A CERTIFICATE THAT THE PROPOSED ACQUISITION BY THE OHIO BELL TELEPHONE COMPANY OF THE PROPERTY OF THE SANDUSKY HOME TELEPHONE COMPANY WILL BE OF ADVANTAGE TO THE PERSONS TO WHOM SERVICE IS TO BE RENDERED AND IN THE PUBLIC INTEREST.

Finance Docket No. 1969.

Decided January 14, 1922.

Certificate that Acquisition of Property Would be in Public Interest Granted.

REPORT.

The Ohio Bell Telephone Company and The Sandusky Home Telephone Company, hereinafter referred to as the Ohio company, and the Sandusky company, respectively, on December 9, 1921, filed a joint application pursuant to

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the provisions of Section 5 of the Interstate Commerce Act, as amended by Act of Congress June 10, 1921, amending Section 407 of the Transportation Act, 1920, for a certificate that the proposed acquisition by the Ohio company of certain telephone properties owned by the Sandusky company and described in said application, will be of advantage to the persons to whom service is to be rendered and in the public interest.

By the terms of a tentative agreement entered into by and between the applicants the Sandusky company is to convey to the Ohio company all telephone exchange property owned and operated by it, situated in the municipalities of Sandusky, Bloomingville and Castalia, Ohio, together with local toll lines radiating from such exchanges to nearby points. The consideration agreed upon is \$151,200, to be paid by the Ohio company in cash. The Sandusky company serves 1,263 subscribers at the three exchanges, of whom 934 are in the city of Sandusky. The Ohio company serves 4,467 subscribers in Sandusky but maintains no exchanges at the other two points mentioned. It is estimated that after unification has taken place, the Ohio company will serve about 5,581 subscribers at the three exchanges. The toll lines involved in the transaction comprise 37.2 miles of circuit. There are at the present time 302 business telephones and 123 residence stations of the Sandusky company which are duplicated by subscriber stations of the Ohio company. The balance sheet of the Sandusky company as of November 30, 1921, shows total charges to property and plant of \$184,074.12. The Public Utilities Commission of Ohio has found that the value of the Sandusky company's physical property as of April 29, 1921, was \$140,710.95, not including intangibles, and the value including overhead allowance and working capital was \$181,044.57. The Ohio Commission has heretofore entered an order* approving the trans-

* See Commission Leaflet No. 122, p. 449.

action in question and fixing local rates effective as and when the physical unification of the property shall have been completed. The income account of the Sandusky company shows net operating revenues of \$12,713.12 for the year 1919, \$10,383.60 for the year 1920, and \$5,924.15 for the first eleven months of the year 1921. Local opinion is favorable to the proposed acquisition as the only feasible method of eliminating the present unsatisfactory duplicated service.

Upon the facts presented we find that the proposed acquisition, as set forth in the joint application, will be of advantage to the persons to whom service is to be rendered and in the public interest. A certificate to that effect will be issued.

CERTIFICATE.

A hearing having been had in this proceeding, and full investigation of the matters and things involved therein having been had, and said Division having, on the date hereof, made and filed a report containing its findings of fact and conclusions thereon, which said report is hereby referred to and made a part hereof;

It is hereby certified, That the proposed acquisition by The Ohio Bell Telephone Company of the property of The Sandusky Home Telephone Company, as described in said application and report, will be of advantage to the persons to whom service is to be rendered and in the public interest.

January 14, 1922.*

* On the same day the Commission certified that the acquisition by The Perry County Telephone Company of the property of The Citizens Independent Telephone Company located in New Lexington, for the consideration of \$25,500, would be of advantage to the persons to whom service was to be rendered and in the public interest, *In re The Perry County Telephone Company and The Citizens Independent Telephone Company* (Finance Doc. No. 1968).

ALABAMA.

Public Service Commission.

**ALABAMA PUBLIC SERVICE COMMISSION v. SOUTHERN BELL
TELEPHONE AND TELEGRAPH COMPANY.**

Docket No. 4141.

Decided January 3, 1922.

**Minimum Line Guarantee in Connection with Farmers' Line Service
and in Connection with Farmers Exchange Trunk Service Abol-
ished — Rate for Farmers' Line Service and Farmers'
Exchange Trunk Service Established.**

ORDER.

It is ordered, 1. That the minimum line guarantee of \$4.50 per month in connection with farmers' line service and \$9.00 per month in connection with farmers' exchange trunk service, now in effect and as charged by Southern Bell Telephone and Telegraph Company for such service within the State of Alabama, be, and the same is, abolished, effective January 1, 1922.

2. That, effective January 1, 1922, the rate for each farmers' line with the right to connect six stations thereon shall be the rate applicable for individual line business service within the base rate area at the exchange with which the farmers' line is connected, and the rate for each station in excess of six stations shall be a rate equal to one-sixth of the initial line rate.

3. That, effective January 1, 1922, the rate for each farmers' exchange trunk line shall be double the rate applicable for individual line business service within the base rate area at the exchange with which the farmers' exchange trunk line is connected.

4. That, effective January 1, 1922, the charge for circuits outside the base rate area which may be furnished by the telephone company in connection with farmers' line and

farmers' exchange service shall be \$2.50 per annum, per quarter mile or fraction thereof, route measurement.

5. That all other rates and practices governing farmers' line and farmers' exchange service as prescribed in the telephone company's General Exchange Tariff, Section 9, on file with this Commission, be continued in effect.

6. That the citation herein be dismissed.

January 3, 1922.

CALIFORNIA.

Railroad Commission.

In re APPLICATION OF SOUTHERN CALIFORNIA TELEPHONE COMPANY FOR AN ORDER FIXING JUST AND REASONABLE RATES FOR TELEPHONE SERVICE, AUTHORIZING THE FILING OF SAME WITH THE COMMISSION, FIXING A DATE WHEN SUCH JUST AND REASONABLE RATES SHALL BECOME EFFECTIVE, AND DEFINING EXCHANGES AND EXCHANGE BOUNDARIES FOR THE ADMINISTRATION AND APPLICATION OF SAID JUST AND REASONABLE RATES, TOGETHER WITH RULES AND REGULATIONS APPERTAINING THERETO.

Application No. 6285 — Decision No. 9864.

*Decided December 14, 1921.**

Consolidation Held Beneficial to Both Subscribers and Company — Allowance Made in Operating Expenses for Payment to American Telephone and Telegraph Company — Increase in Rates Authorized.

Application was made by the Southern California Telephone Company for an order fixing just and reasonable rates for telephone service, authorizing the filing of the same with the Commission, fixing a date when the rates authorized should become effective, and defining exchanges and exchange boundaries for the application of rates, together with rules and regulations pertaining thereto.

The Commission reviewed the conditions which resulted in an order † permitting the consolidation of the properties of the Home Telephone and Telegraph Company and The Pacific Telephone and Telegraph Company in 1916, and said: "In the light of events subsequent to 1916 the consolidation was of great benefit to the telephone users of Los Angeles and to the Pacific company, and we believe this to be true, as far as the company is concerned, notwithstanding the fact that the war and con-

* On application of the city of Los Angeles the Commission on December 31, 1921, granted a hearing in the above-entitled case, and provided in the order for such rehearing that the original order should be and remain in full force and effect, and that neither the provisions relative to rates or any other provisions or requirements thereof should be stayed or postponed.

† See Commission Leaflet No. 61, p. 74.

ditions resulting from the war have laid financial burdens on this company which, in some respects, have been more onerous than other telephone companies have had to contend with."

The Commission assumed a theoretical value of \$23,800,000, and estimated the operating expenses for the year 1922 at \$6,153,500, to which was added an annual amount of \$780,000 to be set aside into the depreciation fund, \$120,000 to be paid to the American Telephone and Telegraph Company, and \$41,000 for uncollectable revenue, making a total estimated expense for the year 1922, of \$7,094,500.

The Commission found that the rate schedule proposed was too high, and adopted a schedule estimated to produce gross revenue in the amount of \$8,300,000; that after the total estimated expenses for the year were deducted from the estimated gross revenue, a balance of \$1,206,000 would remain, or approximately 5.1 per cent. of the estimated value, which fell short by \$222,000 of a 6 per cent. return.

The Commission was of the opinion, however, that the company would earn a full 6 per cent. return on the rate base as found, for the reason that the estimate of earnings was unduly conservative.

Held, That applicant should file with the Commission within fifteen days of the date of this order, a schedule of rates and service as outlined in the opinion, and that upon approval thereof the same should become effective, as of January 1, 1922;

That applicant should file with the Commission within fifteen days of the date of this order, a map showing the Los Angeles primary rate area as outlined in the opinion.

OPINION.

In this application the Southern California Telephone Company (hereinafter referred to as the company) asks for an order fixing just and reasonable telephone rates in the territory served by the company in the city of Los Angeles and adjacent thereto. The Commission is also asked to determine proper exchange areas for the service rendered by applicant with interexchange rates comparable with those existing in the State at large. The amount of increased annual revenue required by the company is stated to be approximately \$2,000,000 and a schedule of proposed rates, designed to produce this additional revenue, is attached to the application.

In support of its application the company makes reference to this Commission's Decision No. 3845* in Applica-

* See Commission Leaflet No. 61, p. 74.

tion No. 2227 (Opinions and Orders of the Railroad Commission of California, Vol. II, page (806) and asks that the entire record upon which that decision of November 4, 1916, is based be considered as a part of the present application. The company directs particular attention to page 860 of the decision referred to, being condition 1 (a) and reading as follows:

"That during the period of five years subsequent to the date of this order, Southern California Telephone Company will not make application to the Railroad Commission or any other public authority for any increase in the telephone rates now in effect in the territory in which the company is to operate, except in such minor matters as may be necessary to remove discriminations."

The company states that this stipulation was made and accepted by it without any realization of the imminence of the entry of the United States into the World War and the experience of world-wide changes in economic conditions that have followed. These economic consequences of the war, the company avers, had to be met by the applicant in common with business everywhere, but because of this stipulation the relief open to others through increased rates and revenue was denied to applicant. It would have been impossible, according to applicant, to carry forward its business except through the credit and the resources of The Pacific Telephone and Telegraph Company (hereinafter referred to as the Pacific company). The condition quoted above has now expired and in its application the company points out that after this expiration it will not be able to rely further upon the credit and resources of the Pacific company but will be dependent absolutely upon its own credit resources to meet operating expenses and to secure capital for extensions of plant, and that, without immediate assurance of effective relief through increased revenue from rates, its credit and resources will be nil, extensions in progress must stop, and further extensions to care for unprecedented demands in 1921 and subsequent years must halt. The point is further made by the

company that, in spite of its difficulties, it has taken care of the heaviest growth ever recorded in the telephone history of the territory served and that there was a waiting list of applicants (at the time of the filing of the application early in November, 1920) in excess of 9,000, with the list growing daily, and that the ability to take care of these demands, and to meet the demands for service, is absolutely dependent upon securing adequate relief in increased revenue concurrently with the expiration of the stipulation.

Under a literal interpretation of condition 1 (a) referred to, the company stipulated that it would "not make application" to this Commission or any other public authority for an increase in the telephone rates until November 4, 1921. The filing of the application on November 9, 1920, one year ahead of the stipulated time, might have been construed, therefore, as a technical violation of the stipulation. The Commission took this matter up with the Los Angeles city authorities and it was agreed that it would be fair to the company, and not unfair to the telephone users, to commence with the consideration of this application, since of necessity a considerable period, probably not less than a year, must elapse before a proceeding of such magnitude could be concluded. The facts have substantiated that conclusion and this matter is only now ready for a decision.

An unusually large number of complaints regarding the telephone service rendered by the company, and particularly with reference to delayed installations, was received by this Commission during the last two years and the number of such complaints grew subsequent to the filing of this application. It became apparent that the matter of service would be a factor of paramount importance in this case and that an adequate consideration of that factor might unduly delay and interfere with the rate proceeding. The Commission, therefore, on January 27, 1921, commenced on its own motion a proceeding, in Case No. 1531, instituting an investigation into the reasonableness

and adequacy of the service rendered by the company, for the following purposes:

"To determine whether the rules, regulations, practices, equipment, appliances, facilities or service of said company are unjust, unreasonable, improper, inadequate or insufficient in any particular, and, if so, to determine the just, reasonable, proper, adequate or sufficient rules, regulations, practices, equipment, appliances, facilities, service or methods to be observed, furnished, constructed, enforced or employed, and to fix the same by order, rule or regulation; to determine whether or not any additions, extensions, repairs or improvements to or changes in the existing plant, equipment, apparatus, facilities or other physical property of said company ought reasonably to be made, or whether any new structure or structures should be erected to promote the convenience of the public, or in any other way to secure adequate service or facilities, and to make any such order in regard thereto as the Commission may determine to be in the interest of public convenience and necessity, directing that such conditions, extensions, repairs, improvements, or changes be made, or that structure or structures be erected in the manner and within the time to be specified in said order."

The proceeding in that case is not yet concluded. To the extent that the record in Case No. 1531 throws light on the matter of service, it will be taken into consideration in this present decision.

Hearings were held in the present application in Los Angeles on March 15 and 16, May 17 and 18, September 20 and on November 7, 1921. Exhibits were put in evidence by the company, the city of Los Angeles, and the Commission's engineering department, and the list of these exhibits is, for reference, attached to this decision as Supplement A. In the hearing on September 20, 1921, it developed that a lengthy cross-examination of witnesses would be inevitable if the matter was proceeded with by formal trial by reason, mainly, of the wide divergence of opinion and statements and interpretation of facts as between the company's witnesses, on the one hand, and the city's, on the other. It was agreed that it would not be in the public interest to unduly protract this proceeding. As the result of a conference between the representatives of the city and of the company with the presiding commissioners, it was decided that there should be

appointed a joint engineering conference to be composed of the engineers of the Commission, engineers to be appointed by the city and engineers to be appointed by the company, who were to organize immediately under instructions to be issued by the Commission. These instructions would direct this conference to go into all of the exhibits and reports submitted by the company and by the city, and to report back to the Commission, at a later hearing, those matters on which there was agreement and all matters on which there was disagreement. The Commission, accordingly, instructed its chief engineer to take charge of this conference and to arrange for the immediate meeting of the engineers and for the assignment of the work. Under the Commission's letter of instructions the engineering conference was to deal with the following matters:

- (a) Investment, valuation and rate base.
- (b) Duplication of property.
- (c) Analysis of operating expenses, including the question of depreciation.
- (d) Past and present revenues and estimated revenues under proposed rate structures.
- (e) Rate areas.
- (f) Relation between exchange revenues and expenses and toll revenues and expenses.
- (g) Relation between Southern California Telephone Company, The Pacific Telephone and Telegraph Company, American Telephone and Telegraph Company and Western Electric Company.
- (h) Service.

The conference undertook this work and, on November 7, filed its report dealing with all of the matters assigned to it. This report is one of the exhibits in this proceeding. There were filed subsequent to the report of the conference statements by the city and by the company (Exhibit B and Exhibit No. 30 of the city and company, respectively, and reply memorandum of the city to company's Exhibit No. 30), and the matter is now submitted.

After a careful consideration of the entire record we have reached certain conclusions as hereunder discussed under different headings.

CONSOLIDATION OF PRIOR COMPANIES AND CONDITIONS GROW-
ING OUT OF CONSOLIDATION.

Great stress is laid by the company, both in its application and in subsequent hearings, upon the alleged fact that the present applicant came into being as a result of this Commission's Decision No. 3845,* in Application No. 2227, above referred to. It is said (in the application) that applicant's corporate existence has its foundation in the conditions culminating in that decision and order. And again, referring to the consolidation proceeding before this Commission, according to counsel for the company, there was no idea as strongly in the minds of the Commission as that, once and for all, they were officiating at the birth of a public utility (Tr., p. 355). It will be useful, therefore, to refer briefly to the consolidation proceeding and to the decision of the Commission in that case, and to consider the consequences of the consolidation.

The Pacific company and its predecessor, the Sunset company, have operated in Los Angeles since 1891, when a twenty-five-year franchise was granted to the Sunset company. Until 1902 the Sunset company enjoyed a monopoly of the telephone business, but in that year the city granted a fifty-year telephone franchise to M. A. King and this franchise was subsequently transferred to the Home Telephone and Telegraph Company (hereinafter referred to as the Home company). Since 1903, therefore, the Pacific company and the Home company were in competition with one another and the record shows that in the period 1910 to 1916 the business of the two companies as measured by the number of telephone stations was approximately equal, the Pacific company exceeding by approximately 10 per cent. the number of stations of the Home company. From the earning standpoint, the operations of the two competing systems were not successful. Home company's exhibits introduced in Application No. 2227,* and checked by the Commission's engineers, show that from 1903 to 1915 the Home company's net earnings

* See Commission Leaflet No. 61, p. 74.

averaged considerably below what may be taken as a normal fair return although the financial showing of the Home company, especially during the years 1911 to 1915, inclusive, was much better than the showing of the Pacific company in its Los Angeles operations. The Pacific company's net revenue (assuming the accuracy of the Pacific company's claim for depreciation) was sufficient, apparently, since 1911, to pay 6 per cent. interest on the following amounts: in 1911 on \$880,000; in 1912 on \$2,430,000; in 1913 on \$563,000; in 1914 on \$1,775,000 and in 1915 on \$1,090,000. Compared with these figures, the Pacific company claimed as of December 31, 1915, actual performance value of the same date of \$7,554,000. It is apparent, therefore, that the Pacific company's Los Angeles operations for a number of years prior to consolidation were not financially satisfactory. From 1911 to 1915, inclusive, the Pacific company in no year earned in excess of 2 per cent. on its claimed structural value as of December 31, 1915, while in 1913 the company earned less than one-half of one per cent. on its claimed structural value. There can be no doubt, therefore, that consolidation on any terms likely to result in a lessening of financial losses was of advantage to the Pacific company, even if consolidation did not result in actual profits over and above the cost of operation and the cost of money.

Another factor possibly of greater importance than immediate financial considerations, operated in favor of consolidation. It appears that the franchise granted by the city to the Sunset company on November 16, 1891, would have expired on the same date in 1916. The people of Los Angeles for a considerable time had been dissatisfied with duplicate telephone service, and the difficulties attending the renewal of a franchise under conditions favorable to the Pacific company, together with the unfavorable financial outlook towards the past as well as towards the future, conspired to make consolidation a thing devoutly to be wished for from the standpoint of the Pacific company.

In Decision No. 3845* the Commission makes abundantly clear why permission to consolidate was granted. It was granted because (Opinions and Orders of the Railroad Commission of the State of California, Vol. II, page 856) :

"The facts clearly show that under a condition of consolidation, by reason of a smaller return to be paid on capital invested, a smaller depreciation annuity to be set aside, year by year, and a smaller amount necessary to meet maintenance and operating expenses, the Southern company will be able to give to the people of Los Angeles and vicinity a unified telephone service at rates lower than those which would be necessary under a condition of interchange, and that under a condition of consolidation the Southern company will be able to give to the people of Los Angeles good telephone service without increasing the present rates."

And, further, in answer to the suggestion that competition had proved the best incentive to good service and that with consolidation such competition would be eliminated, the Commission said (page 858) :

"In the present instance, the evidence shows that if the consolidation is effected, the people of Los Angeles and vicinity will immediately save the sum of \$483,000 per year from the elimination of duplicate telephone stations. They will be relieved from the nuisance of a dual telephone system. Their rates will not exceed those which they have heretofore enjoyed under a condition of competition. The consolidated telephone company, receiving the entire gross revenue from telephone service within the area affected without corresponding increase in maintenance and operating expenses, will be a stronger company financially than either of the existing companies insofar as their operations within this area are concerned, and ought to be better able to borrow new moneys on favorable terms, to accord reasonable rates to its customers, and to make such extensions of service as the interests of the public may require.

In view of these immediate, substantial benefits to accrue to the public from the consolidation, we do not feel warranted in denying these benefits to the public merely because hereafter the consolidated company may possibly become remiss in its duty to the public. We prefer to believe that under the present supervision and regulation of telephone companies by the State, the State will be strong enough to secure good service, even from a telephone monopoly, in case such monopoly should, blind to its own interest, revert to the conditions of the past."

* See Commission Leaflet No. 61, p. 74.

The Commission granted the petition for consolidation subject to certain conditions. Capital stock and bonds not exceeding a par value of \$14,000,000 (as compared with \$16,098,500 applied for) were authorized to be issued by the company and of this amount the bonds were not to exceed in par value the sum of \$9,330,000 (as compared with \$9,927,000 applied for). The condition requiring a stipulation that no increase in rates should be asked for for a period of five years has already been referred to. Permission was made conditional upon absolute impartiality as between automatic and manual stations, according to the wish of the subscriber; similarly, the choice of the subscriber was to control as to the use of the toll lines of the various long distance lines; that the company would retain its principal office in the city of Los Angeles; that no franchise value should ever be claimed in any proceeding before this Commission, in court, or other public authority, in excess of the sum actually paid for such franchises; and certain other conditions insuring good service.

It would appear in the light of events subsequent to 1916 that the consolidation was of great benefit to the telephone users of Los Angeles and to the Pacific company and we believe this to be true, as far as the company is concerned, notwithstanding the fact that the war and conditions resulting from the war have laid financial burdens on this company which, in some respects, have been more onerous than other telephone companies have had to contend with.

INVESTMENT, VALUATION, RATE BASE.

We do not believe, in view of the facts in the case, that the matter of a rate base is a controlling factor in the fixing of the rates of this utility at this time. If, with reasonable rates from the standpoint of the service rendered and compared with rates for reasonably similar service in other cities, this applicant can earn a fair return after operating expenses upon a reasonable rate base for

its property used and useful in the public service, we should not hesitate to fix such rates. On the other hand, if, in order to secure a theoretically fair return on a theoretical rate base an unreasonable charge in the form of abnormally high telephone rates had to be laid on the Los Angeles telephone users, we are of the opinion that such a procedure would result in unjust and unreasonable rates and in a burden the subscribers should not be asked to bear. We must remember, as indicated above, that the competitive conditions of the past made impossible a profitable operation of the Pacific company's Los Angeles business. At the time of consolidation in 1916, there were over 60,000 telephone stations on the Home company's plant and over 68,000 on the Pacific company's plant, and a large proportion of these were duplicate stations. The great majority of these duplicate stations disappeared with the progress of consolidation. This meant an inevitable loss in revenue. There was also some decrease in operating expenses, but not proportionate to the decrease in gross income. There was a considerable amount of duplicate plant other than duplicate subscribers' equipment and it is in the record that the extraordinary expenses incident to consolidation were large and have extended to the present day, with the end not yet. These conditions clearly were and are the aftermath of the period of competition and it would be unreasonable to place these costs and losses entirely upon the present subscribers. This would be the more unjustifiable since another unavoidable consequence of past competitive systems and thoroughgoing unification is unsatisfactory service during the period of transition. Such unsatisfactory service the city of Los Angeles has had to bear and is still bearing.

While, therefore, in our opinion, a rate base is not an essential factor in this proceeding, we shall, nevertheless, briefly review the evidence on that item and indicate our conclusions.

There is not available to the Commission an exact inventory of the operative physical property of the company

as of the present time, but it was agreed by the engineering conference that the delay and expense incident to the making of such an inventory is not warranted for the purposes of this proceeding and that the valuations made in the consolidation proceeding could be brought to date and used in this case. The following valuation estimates are in evidence:

By the Company (as of October 31, 1921):

(a) Reproduction cost new of property at September 30, 1920, prices, plus net additions.....	\$17,720,000
(b) Reproduction cost new of property (Exhibit No. 24).....	39,278,100
(c) Reproduction cost new of property less depreciation (Exhibit No. 24).....	36,089,000
(d) Fair value of property plus net additions.....	30,700,000
(e) Actual performance appraisal of plant and working assets (Exhibit No. 25).....	24,050,256

By the City:

(f) Maximum rate base 1920 (Exhibit A, engineering conference, page 27).....	15,071,684
(g) Rate base for end of 1921 (Exhibit B, board of public utilities, city of Los Angeles).....	17,250,032

By the Commission's Engineering Department:

(h) Rate base as of March 31, 1921 (Exhibit A, engineering conference, page 45).....	16,520,000
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The engineering conference points out that the rate base figures as of March 31, 1921, should be brought to a later date and that there should be added materials and supplies, employees' working funds, and other working capital to the extent that current cash receipts do not take care of current cash expenditures. We shall deal with the question to what extent expenditures not yet made shall be considered in fixing present rates under another heading in this opinion.

(i) Engineering department's rate base, 1922, on basis of 170,300 stations (19,600 additional stations over March 31, 1921), including materials and supplies, employees' working funds and additional capital required	\$23,800,000
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It is apparent that these valuation figures differ within very wide limits. The difference is in part accounted for by the fact that differing dates are used for the estimates. The important reasons for the wide discrepancies, however, are to be found in the differing methods of valuations and in the variety of facts and principles used by the several witnesses. It should also be stated that the figure under (i) is based, in point of time, on the year 1922 and that to bring the preceding figures from (a) to (h), inclusive, to the same base, all of them would have to be increased by a large amount (Exhibit A, engineering conference, page 70).

The company does not claim, however, that its figures under (a), (b) and (c) should be taken by the Commission as a proper rate base. They are given merely as indicative of certain measures of value and of results obtained with certain valuation methods. The fourth valuation figure, (d), is stated by the company (Exhibit No. 26) to be the minimum fair value or present worth, while the fifth figure, (e), is termed an actual performance appraisal by the company and it is argued that a lower figure cannot be given consideration by the Commission in a rate case.

It may here be noted that all of the valuation figures shown above (and others in addition) were thoroughly analyzed by the engineers of the company, the city, and the Commission, in the engineering conference above referred to and in Exhibit A, the report of that conference to the Commission. The Commission is thoroughly aware, therefore, of the significance of these various figures from the standpoints of the several interests. It is pointed out by the Commission's chief engineer in Conference Exhibit A (page 36) that figure (d) includes all intangibles such as the value of the business, prospective earnings under assumed rates, etc., and that the figure, on the face of it, is not intended to be a rate base but rather an estimate of what this property as a going concern would be worth under rates giving an adequate return upon this estimated present worth. It is further pointed out that since it is the

rates which are at issue in this proceeding, this figure can have no direct relation to a rate base.

With reference to figure (e), actual performance value, the chief engineer points out that this figure, as that term is used by the Pacific company, is a reproduction cost estimate of existing property on the basis of labor and material costs incurred over a limited period of time on a portion of the property under operating conditions. And he states that this method of valuation does not provide for a check of the reasonableness or unreasonableness of costs and accepts whatever costs were actually incurred by the company, regardless of whether they be normal, too high, or too low. This statement appears on page 37 of Conference Exhibit A:

"The engineering department (of the Commission) has never been able to agree that a so-called actual performance appraisal, depreciated or undepreciated, is a reliable index either to a rate base or to 'value'. It is our contention that, in order to determine the reasonableness of so-called actual performance figures, it is necessary to test them against investment or historical reproduction cost incurred not under operating conditions but under *construction conditions* during a reasonable construction period."

Since the company, as also the Pacific company, appears to put great weight upon this particular method of valuation for purposes of rate proceedings, it is pertinent to say that, in our opinion, the objections in the preceding quotation appear valid and that we should be unwilling to rely on such a valuation estimate to the exclusion of any other. We make this statement in this place because the so-called actual performance figures were passed upon, in a measure, by this Commission in the decision * in the consolidation case heretofore referred to. The Commission did not then approve the so-called actual performance method of valuation and we see no reason for a different conclusion.

The city, in its Exhibit A, objects to all of the company's valuation figures. Its principal objections may be sum-

* See Commission Leaflet No. 61, p. 74.

marized as follows: the reproduction estimates are based on an improbable reproduction scheme; no account is taken of duplication; the condition per cent. given is not satisfactory; intangible values are excessive; cost of additions is based on non-competitive tabulation of probable current costs; no account is taken of actual per cent. condition of property; performance value is based on at least one valuation not approved by Commission in the consolidation proceeding; no deduction is made for depreciation in performance estimate. The city asks for a re-check of all quantities and the application of new unit costs approximating historical costs. It also requests a re-determination of condition per cent. The principal point of objection by the city to both the company's and the Commission's engineering department's valuation estimates is with reference to the treatment of the depreciation reserve in the valuation and in the rate base. The city insists that the depreciation reserve accumulated by the company is too high and that that portion which has been invested in plant should be deducted from the rate base. This matter will be discussed under another heading and it is sufficient to state here that in the city's figures above, both under (f) and under (g), there is deducted from the otherwise maximum rate base the sum of \$4,181,327, this being the amount of the depreciation reserve invested in plant. The city's figures are based on the valuations made by the Commission's engineers in the consolidation case, after making allowance for duplicate plant and with net additions between December 31, 1915, and March 31, 1921. In item (g) the net additions have been estimated to the end of the year 1921.

The engineering department's figure under (h) is reached after an analysis of the valuation figures, and of the portion dealing with the securities to be issued, in Decision No. 3845 * above referred to. It is concluded that the Commission, when consolidation was permitted, took as

* See Commission Leaflet No. 61, p. 74.

the best measure of value the historical reproduction cost depreciated and that this amount should, therefore, be taken as the figure representing most nearly the rate base on the day consolidation occurred. The correctness of this figure as a theoretical rate base is suggested because the new company, on consolidation, took over all of the assets and liabilities of the two old companies, including the reserve for accrued depreciation. To this December 31, 1915, figure the engineering department has added the net additions, undepreciated, to March 31, 1921, and this is the figure shown under (h) and designated as the theoretical rate base.

The term theoretical rate base is used by the Commission's chief engineer because it is pointed out that the figures shown under (h) and (i) do not reflect the value, as the term is ordinarily used, of this property. This is because of the effect of the factor of earning power. This factor is discussed in the engineering department's memorandum (Conference Exhibit A, page 46) as follows:

"Earning Power:

The figure of \$16,520,000 does not in any sense indicate the present day value of this property in the sense that the term value is used in the estimate of the company's president, for instance. It is acknowledged that the value of public utility property is made up of two principal elements: first, the plant necessary to produce the service; second, the earning power of the plant. When measured by this universally recognized standard, then the present value of this property is very much less than the figure shown above. This is true because it is now earning, and has been earning, since its existence under consolidation, a very low return, and a return which is below the cost of money. Furthermore, the profits from the business have become smaller and, in 1920, according to the company's annual report, there was a profit, after operating expense, depreciation, taxes and rents, of only \$108,406 (this sum was available for the payment of interest, sinking funds, amortization and surplus. The interest charges, accrued for that year, amounted to approximately \$429,000). For each year since January 1, 1917, the gross income was as follows (gross income is the amount available for interest, other fixed charges, dividends and surplus, after the payment of operating expenses, including depreciation and taxes):

C. L. 123]

Year ending December 31, 1917.....	\$656,674 00
Year ending December 31, 1918.....	266,922 00
Year ending December 31, 1919.....	101,696 00
Year ending December 31, 1920.....	131,460 00

(NOTE: These figures are subject to some modification because of intervening federal control.)

If, therefore, the past and present earning power of the property were taken as one factor of value and of rate base, as appears to be urged by the company, then it is apparent that to whatever extent that factor is taken into consideration, it must operate as reducing the figure found for the plant alone.

The present instance affords a perfect example of the unavoidable reasoning in a circle, if it is claimed that rates must be based on value and that value must reflect both plant and earning power. Under such a theory it is apparent in this case that with the existing rates the value, and, therefore, the rate base, of this property is much lower than any investment or valuation figure, and to whatever extent the Commission increases the rates, it would, of a necessity, increase the earning power and, therefore, the value and, therefore, the rate base.

Neither can it be said that the factor of earning power had a different influence prior to consolidation. It is in the record in Application No. 2227,* heretofore referred to, that both predecessors of the present company carried on an unprofitable business for a number of years prior to 1916 and probably since the year 1903, when competitive telephone service developed in Los Angeles. It is equally true that, under competitive conditions, these losses would have continued if consolidation had not been brought about and permitted by this Commission.

The engineering conference is agreed that the factor of past, present, and prospective earning power is a negative quantity in this property and would result in a further reduction of the figure of \$16,520,000 found above. It is also agreed that a capitalization of a *prospective* rate increase by the Commission would be unsound and unreasonable and that such capitalization should not be permitted in any degree to affect the rate base to be found in this proceeding."

A careful consideration of the facts dealt with under this heading justifies, we believe, the designation "theoretical rate base" to any rate base figure that has been estimated by the company's, the city's, or the Commission's engineers. We believe a distinction must be made between a rate base on which it has been possible to earn a fair return

* See Commission Leaflet No. 61, p. 74.

in the past, under rates fair to the public, and a rate base on which a full fair return has not been and cannot at the present time be earned under such rates. Considering the earning possibilities of this property during the time prior to the consolidation and to the five years subsequent thereto, it is not possible to speak of any but a theoretical rate base.

We shall indicate under a later heading what rate of return this applicant may be expected to earn on one of several capital figures, under rates fair and reasonable alike to the company and to the subscribers, after operating expenses and reasonable allowance for depreciation and proper allowances for taxes and other items have been provided for.

DUPLICATION OF PROPERTY.

The city maintains that the company's present telephone plant is still burdened with a considerable amount of duplicated property, resulting from the consolidation of two competing systems and that the amount of such duplicated cost should be eliminated both as it affects the rate base and operating expenses. It is suggested by the city that the only accurate way of determining such duplication is by means of a careful field study. The company, on the other hand, points out that the chief item of duplication was in the two telephones that many people had been under the necessity of installing prior to consolidation. All these duplications were subsequently removed, with the result that facilities were made available for additional business. It is also pointed out by the company that the additions to the plant made since the date of consolidation (May 1, 1917) represent a very large proportion of the existing plant and cannot be considered, in any sense, as having duplication included. In the company's opinion there is no duplication existing in the operative property at this time.

We are satisfied that the effects of the existence, five years ago, of two separate telephone plants of practically equal importance are still present to some extent. The

Commission's engineers point out that there still, of necessity, exists duplication in the matter of poles, right-of-way, easements, cable, conduit trenches, and central offices, and other items. This duplication must have its effect on the cost of the plant as well as on the cost of operation. We are not persuaded, however, that the loss resulting from this condition should be borne by the company in its entirety. The public has benefited, to some extent at least, by the existence of this duplication. The spare plant made available by the disconnecting of 15,000 duplicate stations made possible the taking care of a considerable number of new telephone applications under the abnormal material and financial conditions prevailing in 1918 and 1919. It is also a fact that the combined service of the two former systems has been delivered to all subscribers at the rates in effect when the business was divided between two competing concerns. We reach the conclusion that, from the standpoint of the rate base, the duplication reflected in the engineering department's figures under (h) and (i) in the preceding heading is fair and reasonable to the company and to the public alike, and we shall not make a further deduction on that account under operating expenses.

OPERATING COSTS AND OTHER EXPENSES AND CHARGES, AND
ESTIMATED REVENUE.

It is our purpose to fix rates in this proceeding which will allow the company reasonable operating expenses, including a proper allowance for depreciation and taxes, reasonable compensation to affiliated companies for service rendered or value received and, in addition, a reasonable fair return, having in mind the essential conditions surrounding this utility.

A careful estimate of operating expenses necessary to the company was worked up by the engineering conference. On a number of such expense items there is agreement; on other items the differences of opinion and the reasons therefor have been presented to us by the several engineers. We shall summarize the agreed items and then

briefly discuss the items in dispute. The estimate of operating expenses for the year 1922, based on current expenses plus estimated increases and figured as average unit costs per station, and taking the average number of stations for the year 1922 as 170,310, is as follows:

	<i>Unit Per Station Per Month</i>	<i>Total Per Year</i>
1. Ordinary repairs .....	.860	\$1,757,599
2. Station removals and changes.....	.140	286,121
3. Traffic expenses	1.200	2,452,464
4. Commercial expenses .....	.475	970,767
5. General expenses .....	.085	173,716
<hr/>		
SUB-TOTAL	2.760	\$5,640,667
	say	5,641,000
6. Rent deductions		30,000
7. Amortization of landed capital.....		2,500
8. Taxes		480,000
<hr/>		
SUB-TOTAL		\$6,153,500

The amounts shown opposite items 1 to 8 above are reasonable estimates of the actual amount of expenses that will have to be met during the year 1922, regardless of whether these amounts may be considered as normal or abnormal. It is the city's position, however, that operating conditions, and therefore operating expenses, cannot be considered as normal at the present time, nor in 1922. The city urges the use of average figures over a number of years, properly adjusted to allow for unusual conditions obtaining by reason of existing duplication, delayed installations and the present period of unusually heavy construction. Because of these considerations, the city contends for a general reduction of operating expense items and particularly for a 10 per cent. reduction in items 1 and 2.

We have already stated our views with reference to duplication. With reference to abnormal construction conditions, and the situation resulting from delayed installations, we believe that, as to the former item, the actual operating costs should be allowed unless there is evidence

that with more efficient management and operation such costs can be reduced. No evidence to that effect is before the Commission in this proceeding. The matter of delayed installations will have attention in the consideration of the quality of the service rendered by the company and its effect upon the rates. We can also not be unmindful of the fact that the unprecedented growth of the city of Los Angeles, in building activity and population, and in expansion of all sorts of business enterprises, has created an equally unprecedented demand for telephones. We see no indications justifying a belief that this growth will be retarded or come to a pause in the future. On the contrary, in our judgment, the indications are that this remarkable development will continue and the conditions which have been designated as abnormal in this proceeding may, for some considerable time to come, prove the normal condition of Los Angeles. Holding to this conclusion, we see no justification for a percentage reduction in the operating expenses shown above on account of their being abnormally high.

On other expense items there are material differences and it will be necessary to analyze the most important ones in some detail.

Depreciation:

We consider the matter of depreciation of great importance. The company for the year 1922 claims a depreciation allowance under operating expenses of \$1,428,000. The allowance estimated by the Commission's engineering department for the same year is \$730,000 and the city urges as a sufficient allowance the sum of \$610,000. It will be well to state the bases for these three figures. The company figures its depreciation allowance for plant and equipment on the so-called straight line method and on the book amount of depreciable property for the average of the year 1922 (\$23,800,000). To the cost shown on the company's books on September 30, 1921, there is added the estimated net additions for the balance of 1921 and half

of 1922. An exhaustive statement has been filed with the Commission by the company showing its position on the matter of depreciation. It is difficult to summarize this extensive presentation. It may be stated, however, that, on the whole, it is based principally on accounting considerations and on the classification of accounts prescribed by the Interstate Commerce Commission and by this Commission. The company maintains that in maintenance expenses it is entitled to a depreciation allowance for all losses suffered through the current lessening in value of tangible property from wear and tear not covered by current repairs. This includes obsolescence and inadequacy resulting from age, physical change, or supersession by reason of new inventions and discoveries, changes in popular demand, or public requirements, and losses suffered through destruction of property by extraordinary casualties. Under this accounting definition the experience, over a number of years, of the associated Bell telephone companies throughout the United States with particular reference, perhaps, to the experience of the Pacific company, is used and the percentages thus obtained for the various classes of property are applied to the property of the applicant. An inspection of applicant's annual reports filed with this Commission shows, however, that the depreciation rates have changed from time to time and that, during the period of federal control, the provisions of the federal control superseded the company's practices. The company and the Pacific company both recognize the fact that, of necessity, and in the nature of things, any depreciation allowance must partake of the speculative and that the amount in the reserve cannot, at any time, measure the actual physical depreciation and, conversely, the physical depreciation, at a given time, cannot measure the amount which should be in the reserve. This must be so because the present physical condition of any property is a physical fact. The amount which must go into the reserve is necessarily, to a certain extent, based on hypothesis, because

this reserve must provide for facts and contingencies which have not yet occurred and which lie in the future.

The company takes the position that under the accounting rules it is compelled to set aside its depreciation reserve in equal periodical installments on the straight line method and that to use a sinking fund depreciation annuity would be unlawful. It maintains that the rates fixed by it, the amounts proposed to be set aside in this proceeding and the methods adopted by it for the accumulation and use of the reserve must not be interfered with and that at least the sum of \$1,428,000 is required to enable it to render efficient service. It may be stated that the method used by the company results in a rate very closely approximating 6 per cent. per annum on the total depreciable property.

The city's estimate of an adequate depreciation allowance is in radical disagreement with the company's method. The city contends that the rate of approximately 6 per cent. is entirely too great for the reason, mainly, that the life of the various components of the property, as submitted by the company, is entirely too short. In the city's opinion the company has, with regard to life, to obsolescence, to inadequacy and to salvage, made assumptions as impracticable and unsound as the theory of reproduction cost new submitted by the company.

According to the city's contention the \$610,000 per annum, estimated by it as a depreciation annuity, is the maximum, and set aside on a sinking fund basis at a 7 per cent. rate of interest in monthly installments will amply take care of the retirement of all of the depreciable property at the end of its life.

The theory on which the city bases its argument can best be indicated by a quotation from the statement of the chief engineer of the board of public utilities (Conference Exhibit A, page 99):

"The city is of the opinion that the purpose of a reserve fund is for the replacement of worn-out plant and is a guarantee that the original investment will be maintained. It takes the position also that the money set aside for this purpose should be placed in a separate fund as pro-

vided for in California Statute, Section 49, Public Utilities Act. The interest on this separate fund should be calculated at the prevailing rate and set aside and made a part of the fund. This the company does not do at the present time. The city contends that while the reserve fund for replacement belongs to the property, it is for just one purpose, namely, the replacement of worn-out property, and it was taken out of the rates paid by the subscribers for that purpose only.

As conditions are at the present time, the subscribers have absolutely no protection against the neglect on the part of the company to replace old and worn-out inadequate equipment; they have no protection against the lack of service resulting from a failure to replace inefficient equipment. In other words, the condition per cent. of the Southern California Telephone Company is an unknown quantity. We do not admit for one moment that the condition per cent. of the property has nothing to do with the service rendered by the company, or with the matter of rates.

We cannot agree that the reserve fund may be used by the company for any purpose whatever which the company may find convenient. It would seem to us that the only guarantee of good faith in the expenditure of the money set aside for a particular purpose and included in the rates for that purpose, is that the Commission should have charge both of the debits and credits to the depreciation reserve fund.

We contend that the Commission should be the judge of obsolescence whenever a radical change is proposed. We do not contend that either obsolescence or inadequacy should be borne entirely by the rate payer.

The statement that the government allowed the company 5.72 per cent. for the depreciation fund is absolutely immaterial. It is extremely doubtful whether any estimate was ever made during war times on what the rate of depreciation should be. We would need to be shown that the government was not influenced by engineers of the American Telephone and Telegraph Company in arriving at this rate of 5.72 per cent.

The city contends that no one can prophesy the exact amount necessary for the replacement of property or keeping intact the original investment. We contend that a reasonable amount over and above the actual current replacements to take care of emergency withdrawals should be set aside annually and placed in a separate fund, together with the interest thereon, and the fund put under the supervision of the California Railroad Commission, and used for the only purpose for which it was ever taken out of the rates, namely, the replacement of worn-out plant, and keeping the original investment intact. Should it become necessary at any time, in the opinion of the Commission, to increase the annual allowances for depreciation or should the fund accumulate too rapidly to take care of current replacements, then the Commission can increase or reduce the annual payments. By this method there will be no tendency to neglect replacements and use the money for some other purpose."

It is also the position of the city, as indicated under a previous heading, that on the portion of the depreciation reserve invested in plant the company is not entitled to a return and that the amount so invested should be deducted from the rate base.

The Commission's engineering department has also made a report on this item and its estimate is contained in Conference Exhibit A (page 103).

It is the conclusion of the department that the depreciation allowance included in operating expenses by the company in the past and estimated for the future, is too high and that the estimate for this item as submitted by the company in this proceeding should be materially reduced. Our engineers report that neither they, nor the company's engineers, nor the city's engineers, have made the detailed analysis necessary to determine an accurate depreciation allowance for this particular property. Such an analysis would require a list of property inventory items in the various accounts, a determination of lives and salvage value, a distinction between depreciable and non-depreciable property and between such items as should be renewed through ordinary maintenance expense and such as should be replaced out of a depreciation fund. It is the department's conclusion, however, that an approximate figure sufficiently accurate and fair for the purposes of this case can be found on the basis indicated in the conference report for the estimated figure of \$730,000. This allowance, according to our engineers, should be subject to further modification by reason of the excessive reserves set aside in the past and by reason of the fact that the earnings of the depreciation fund have not been added to the fund but reinvested in plant, the ownership of which is now in the company and included in the department's rate base. According to our engineers' figures the reserve estimated by the company for 1921 is from 43 to 48 per cent. too high, depending upon whether the 6 or 7 per cent. sinking fund rate is used, and the same percentage

approximately applies to the depreciation allowances set aside by the company since consolidation.

It appears that the total amount set aside by the company between May 1, 1917, and June 30, 1921, is \$4,129,474, and it is estimated that in this period there has been going into the depreciation reserve an excess amount of \$1,651,790.

In applicant's Exhibit No. 30 (which is the reply memorandum to Exhibit B of the city of Los Angeles) counsel for the company reviews the position of the city, and to some extent the statements of the Commission's engineering department on this matter, and calls attention to certain errors in computation and to certain other matters that are not conceded to be errors by the city and by our engineers. The company in its Exhibit No. 30 restates its position and relies for the soundness of its conclusions principally upon the prescribed accounting classifications. It suggests that the matter of depreciation is outside the jurisdiction of this Commission and that there is nothing for us to do but to accept the company's methods and practices and to allow the amount they claim under this item. This view is taken because the company contends that the Interstate Commerce Commission has sole control of this matter.

We are of a different opinion and the question of jurisdiction we do not believe to be at issue. The amount to take care of depreciation is one of the largest, if not the largest, single item in the total sum that must be provided for the company in rates. We believe that this Commission, being the rate-making body, has not only the right but the duty to scrutinize this expense item most carefully and to include it in the total sum of money to be provided for in an amount reasonable alike to the subscribers and to the company. The Public Utilities Act clearly places this function upon the Commission and Section 49 of the Act reads in part as follows:

" * * * The Commission may, from time to time, ascertain and determine and by order fix the proper and adequate rates of depreciation of the several classes of property of each public utility. Each public

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utility shall conform its depreciation accounts to the rates so ascertained, determined and fixed, and shall set aside the money so provided for out of earnings and carry the same in a depreciation fund and expend such fund only for such purpose and under such rules and regulations both as to original expenditure and subsequent replacement as the Commission may prescribe. The income from investments of moneys in such fund shall likewise be carried in such fund."

From all the evidence on this point we conclude that the sum to be allowed as an operating expense for a depreciation annuity should be \$780,000 per year. Set aside in monthly installments of \$65,000 in a sinking fund, with provision that the earnings accruing are added to the fund, this amount will retire, compounded at the ordinary interest rate of 6 per cent., the total depreciable property within a reasonable life expectancy. There can be no question, in our opinion, about the adequacy of an allowance that will accomplish this end.

Our view of this matter does not go to the mere accounting considerations and is much more far reaching. This Commission has constantly held to the view that a proper depreciation annuity is an operating expense and must be allowed for the same reasons that proper maintenance expenses must be contributed by the rate-payers. We make such a depreciation allowance not merely in the interest of the public utility and in order to enable it to keep up its plant, but, more important, in order to assure the public of the permanency of good service. The depreciation allowance, therefore, is a contribution the public is making to the utility in order to insure a continuation of service through the renewal of plant worn out in the service to the public.

If the company concludes to include more than \$780,000 in operating expenses for depreciation, the excess must come out of the allowance for a fair return. In our opinion the amount claimed by the company is excessive and the amount allowed by us, determined as it is for this particular plant at this particular time, is reasonable in view of all circumstances.

We are aware of the fact that the Interstate Commerce Commission is now engaged in an investigation of the subject of depreciation as it relates to interstate telephone utilities and understand that there is a likelihood of that Commission establishing depreciation percentages for the various items of property. Whether such percentage rates, if any are to be fixed, will be intended to apply to all interstate telephone systems throughout the United States or whether percentages will be determined according to the facts and necessities in a particular territory, and of a particular company, we do not know. The Pacific company, which is particularly interested in this matter, by reason of its stock ownership in the Southern company, is an interstate company, while the latter company is engaged in a purely intrastate business. In view of the present status of the matter, we prefer not to direct a change in the percentages employed by the company in setting up on its books the depreciation accruing in each class of its depreciable property. We shall not allow in operating expenses for depreciation any sum larger than the amount above indicated. We hold to the view that the proper amount to be set aside for a particular property cannot be determined by rule of thumb, or by the use of general percentages applying over a territory as large as the United States, and under conditions as varied as they are found in the large number of separate telephone utilities. Each property, we believe, must be governed by its own particular circumstances and requirements, and the local rate-making body seems to be in the best position to consider and determine the amounts which properly should be set aside for depreciation.

Payments to the American Telephone and Telegraph Company:

In its estimate of expenses the company claims for this item under the designation "licensee revenue" the annual amount of \$217,000. The city's and the Commission's

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engineering department's allowance is smaller and amounts to \$120,000 a year. The engineering department's figure is based on the conclusion that, regardless of the method of computation, this amount is a reasonable payment for services rendered by the American company to the Southern company in view of all circumstances surrounding the plant at this time and that will surround it in the next few years. The company's figure is based on an agreement now in existence between the Pacific company and the Southern company, and particularly on Section 6 of that agreement regarding license contract payments on a gross earning basis. This item, therefore, goes to the matter of the relation between this company, the Pacific company, the American company, and other affiliated or subsidiary corporations. An inquiry into this relation was one of the subjects assigned to the engineering conference. The conference has exhaustively reported on this point and there are before the Commission the views of applicant and of the Pacific company, as also the views of the city and of our engineers. We shall briefly deal with this matter under another heading. It is sufficient to say at this point that, after a careful consideration of the entire record, we are satisfied that the inclusion of \$120,000 in the expense estimate is a reasonable amount for the services rendered by the American company to applicant.

Uncollectable Revenue:

The amount for revenue which the company will be unable to collect and which, therefore, must be a charge upon the general business, is estimated by the engineering conference at one-half of one per cent. of the estimated gross revenue. We are willing to accept this estimate and are making an allowance for this item of \$41,000.

Summarizing the foregoing items, we have a total expense estimated for 1922, exclusive of fair return, as follows:

Operating expense, items 1 to 8, inclusive (as enumerated above)	\$6,153,500
9. Annual amount to be put into depreciation fund.....	780,000
10. Payment to American Telephone and Telegraph Company.	120,000
11. Uncollectable revenue	41,000
TOTAL	\$7,094,500

The rate schedule we are proposing is estimated by the engineers to produce a gross revenue in 1922 of \$8,300,000. We wish to call attention to the percentage growth in the company's revenues during the last three years. It appears that the 1920 revenues showed an increase over the year 1919 of approximately 16 per cent. and the 1921 revenues over those for 1920, in spite of delayed installations, are likely to show an increase of at least 14 per cent. The estimate of the Commission's telephone engineer for the year 1922 (under present rates) shows an increase, however, of only about 9 per cent. The gross revenue estimate derived from the rate schedule suggested in this decision is based on the same approximate percentage increase in business as is the estimate, assuming a continuance of the present rates. We are inclined to believe that the business of the company in 1922 will show an increase closely proportionate to the one of the preceding year. If this view is correct, there is an underestimate in the engineer's revenue figure for 1922 rather than an overestimate.

The rate base we have in mind is the sum of \$23,800,000. This sum includes the estimated capital expenditures necessary to take care of the 1922 business and these new capital expenditures (partly made and partly not yet made) amounts to \$6,738,000. We are aware that, to a considerable extent, the rebuilding of the Los Angeles plant is now going on and has been going on for some time. Unquestionably a portion of the capital expended is not only useful for the stations to be immediately attached to the present system, but will be useful for additional future business. Good telephone engineering demands the design and construction of the plant in such manner.

The engineering conference agreed that there should go into the rate base such cost of new construction as is required for the needs of the estimated number of stations plus a reasonable margin for spare facilities, and the company maintains that full amount of \$6,738,000 does not provide for anything in excess of such needs.

With an estimated revenue of \$8,300,000, and total estimated expenses of \$7,094,000, there remains a net return of \$1,206,000. This is approximately 5.1 per cent. on the estimated rate base and falls short by \$222,000 of a 6 per cent. return. In our opinion the company will earn a 6 per cent. return on this rate base since we are satisfied that the estimates of earnings are unduly conservative. We consider such a return as reasonable and entirely fair to the company in view of all the circumstances in this case.

While this Commission has repeatedly pointed out that the volume and the classes of outstanding securities cannot be controlling in the determination of a just and reasonable rate, we wish to point out that the fair return as estimated above will be sufficient to provide for all of this company's interest on outstanding bonds, allow for interest payments for all borrowed money and for additional money that will have to be borrowed in order to carry out the 1922 program, and in addition leave a substantial surplus. This, it appears to us, must be considered a gratifying financial situation as compared with the condition prior to consolidation and as it would have been had consolidation not been permitted.

Reference should be made in this connection to the matter of the *apportionment of toll revenues and expenses* between the exchange company and the toll company. The city contends that the present 30 per cent. revenue apportionment to the company is insufficient and that at least 40 per cent. of the toll revenue should be credited to the Los Angeles exchange. If an increase were made, the gross revenue of the company would, of course, be increased, the net

revenues would be increased in the same amount and the percentage of fair return would increase accordingly.

We have given careful consideration to this matter. It may be that upon a close analysis the applicant may be entitled to receive a larger proportion of the toll revenue than it receives at present, but no data is before the Commission at this time that would permit of a fair determination of the question. A reapportionment of toll revenue, it is also apparent, would take this revenue away from one branch of the Pacific company's business and give it to another, and in this manner would have an effect on other telephone rate structures which are not now at issue. In our opinion, it seems desirable to let this matter rest until a State-wide determination can be made.

RATE AREA.

The company submitted exhibits showing a proposed primary rate area. This proposal was objected to by the city and the item was one of the matters referred to the engineering conference. It appears that the primary rate area is substantially agreed upon by the conference with one material exception. As recommended by the Commission's telephone engineer and accepted by the conference, the company's proposal is modified by the exclusion from the area of a small neck of territory along Verdugo Road, east of Tropic, and the extension of the area to include a district in the southern part of the city, bounded by Florence Avenue on the north, Mountain View Avenue on the east, Manchester Avenue on the south and Central Avenue on the west. We believe the company should adopt this rate area and the exchange rates fixed in this decision should apply within this territory.

It is the city's contention that the so-called Palms-Culver district should be included within the primary rate area. The Commission has decided this matter in Decision No. 9516* and the only point left open at this time is the loca-

* See Commission Leaflet No. 119, p. 1045.

tion of the Los Angeles primary rate area boundary closer to the Palms-Culver City boundary, or further away from that boundary, compared with the present location. The rate area here suggested extends the present boundary; that is to say, a larger territory will be available to the Los Angeles exchange rates than is at present the case. A reversal of Decision No. 9516* does not appear justified.

RATES.

The rate structure proposed by the company in this application compares with the present rate structure as follows:

Class of service	Present Rates		Proposed Rates	
	Wall	Desk	Wall	Desk
One-party, business, flat.....	\$6 25	\$6 75	\$12 00	\$12 25
One-party, business, measured.....	5 50	6 00	.....	.....
One-party, business, prepayment†.....	5 50	6 00	6 00	6 25
Two-party, business, flat.....	4 75	5 25	9 00	9 25
Business extensions.....	1 00	1 00	1 00	1 00
Business, suburban.....	3 00	3 00	3 50	3 75
One-party, residence.....	2 50	2 75	4 25	4 50
Two-party, residence, flat.....	2 25	2 50	3 50	3 75
Four-party, residence, flat.....	1 75	2 00	2 75	3 00
Residence extensions.....	1 00	1 00	1 00	1 00
Business, P. B. X., flat.....	.....	.....	.....	.....
Switchboards:				
Cordless.....	3 00	.....	5 00	.....
Commercial cord.....	3 00	.....	.....	.....
Non-multiple.....	.....	.....	5 00	†
Multiple.....	.....	.....	10 00	†
Hotel, flat.....	2 00	.....	.....	.....
Non-multiple.....	.....	.....	5 00	†
Multiple.....	.....	.....	10 00	†
Stations:				
Commercial.....	1 00	.....	1 00	.....
Hotel.....	.....	.....	.....	.....
Not in guest room.....	1 00	.....	1 00	.....
In guest room.....	0 35	.....	0 50	0 75
Intercommunicating.....	1 00	.....	1 00	.....
Switching keys, 10 lines.....	0 25	.....	0 50	.....
Switching keys, 20 lines.....	0 50	.....	0 75	.....
Switching keys, 30 lines.....	0 75	.....	1 00	.....
Trunks, first, both-way.....	8 00	.....	.....	.....
Trunks, additional, both-way.....	7 00	.....	.....	.....
Trunks, outgoing.....	6 00	.....	18 00	.....
Trunks, incoming.....	5 00	.....	6 00	.....

* See Commission Leaflet No. 119, p. 1045.

† Under present rates appears under section 3 of tariff.

‡ Up to 80 lines.

We are satisfied that the proposed rates are too high and would be unfair and unreasonable to the subscribers. We suggest the following rate structure and believe that with these suggested rates in effect there will be produced the gross revenue previously estimated and that this income will enable the company to give good and adequate service and to take care of the future telephone requirements of Los Angeles.

PROPOSED RATE STRUCTURE.

	Rate Per Month	
	Wall Set	Desk Set
<i>Business Service:</i>		
Individual line, unlimited service.....	\$9 00	\$9 25
Two-party line, unlimited service.....	7 00	7 25
Suburban, ten-party line, unlimited service....	3 50	3 75
Individual line, coin box service, guarantee, 20 cents per day, each exchange message 5 cents.		
Extension, with or without bell.....	1 00	1 00
<i>Residence Service:</i>		
Individual line, unlimited service.....	\$3 75	\$4 00
Two-party line, unlimited service.....	3 00	3 25
Four-party line, unlimited service.....	2 25	2 50
Suburban, ten-party line, unlimited service....	3 00	3 25
Extension, with or without bell.....	1 00	1 00
<i>Private Branch Exchange Service:</i>		
<i>Business, Commercial, Unlimited Service:</i>	<i>Per Month</i>	
Switchboard, with battery power, ringing circuit, and switchboard telephone for each position:		
Cordless, each position.....		\$5 00
Cord, non-multiple, each position.....		5 00
Cord, multiple, each position.....		10 00
Each station, primary or extension, wall or desk set...		1 00
First both-way trunk line.....		11 00
Each additional both-way trunk line.....		8 25
Each outgoing trunk line.....		9 00
Each incoming trunk line.....		6 00
Each two-position order table equipped with two complete telephone sets		4 00
Each line from the order table to the private branch exchange switchboard		1 00

Hotel, Private Branch Exchange, Unlimited Service: Per Month

Switchboard, with battery power, ringing circuit, and switchboard telephone for each position:	
Cord, non-multiple, each position.....	\$5 00
Cord, multiple, each position.....	10 00
Each station, primary or extension, wall or desk set, not in guest rooms.....	1 00
Each station, primary or extension, in guest rooms:	
Wall set	50
Desk set	75
First both-way trunk line.....	11 00
Each additional both-way trunk line.....	8 25
Each outgoing trunk line.....	9 00
Each incoming trunk line.....	6 00

Intercommunicating Systems, Business, Unlimited Service:

Each station, wall or desk set, with switching device, same premises as primary station:	
10-line switching device.....	1 50
20-line switching device.....	1 75
30-line switching device.....	2 00
Each station, wall or desk set, with switching device, outside premises on which primary station is located, but not exceeding 300 feet from primary station:	
10-line switching device.....	2 25
20-line switching device.....	2 50
30-line switching device.....	2 75
First both-way trunk line.....	11 00
Each additional both-way trunk line.....	8 25
Each outgoing trunk line.....	9 00
Each incoming trunk line.....	6 00

Intercommunicating Systems, Residence, Unlimited Service:

Each station, wall or desk set, with switching device, same premises as primary station:	
12-button switching device.....	1 50
24-button switching device.....	1 75
36-button switching device.....	2 00
Each station, wall or desk set, with switching device, outside premises on which primary station is located, but not exceeding 300 feet from primary station:	
12-button switching device.....	2 25
24-button switching device.....	2 50
36-button switching device.....	2 75
Each both-way trunk line.....	3 75

Apartment House System:

Apartment telephone, connected with its vestibule and janitor set, wall set.....	\$0 25
Vestibule set, including telephone.....	50
Janitor set, including telephone.....	1 00

Primary Rate Area:

The foregoing rates are for service within the primary rate area as outlined in this decision.

Other Rates and Rules and Regulations Affecting Rates:

Rates other than those herein suggested, and rules and regulations governing all rates should, until or unless otherwise authorized by the Commission, remain as at present and schedules providing therefor should be filed by the company, subject to the approval of the Commission.

In the rate schedule submitted by the company the so-called P. B. X. both-way trunk service and the rates now quoted for such service were eliminated. No reasons for this particular elimination were presented by the company. It appears, however, that the great bulk of private branch exchange trunk service in Los Angeles is over both-way trunks and that about 90 per cent. of private branch exchanges would be affected by this change. This class of service, therefore, should be continued unless the company can show that the public interest is better served by an elimination. If the company desires to make such a showing, this may be done in a supplemental proceeding.

THE RELATION BETWEEN SOUTHERN CALIFORNIA TELEPHONE COMPANY, THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY, AMERICAN TELEPHONE AND TELEGRAPH COMPANY, WESTERN ELECTRIC COMPANY, AND OTHER AFFILIATED COMPANIES.

The city, generally speaking, takes the position that, by reason of the relationship existing between the company and the corporations with which it is affiliated, the cost of telephone service to the Los Angeles subscribers is unduly increased and a financial showing much less favorable than

the actual showing, and less favorable than need be, is produced on applicant's books. This result is brought about, in the city's view, because of unreasonably high payments to the American company for services rendered, also by means of a division of joint revenue and expenses (referring to toll business) between affiliated companies resulting to the disadvantage of applicant and, further, by reason of excessive material and supply costs for plant and equipment manufactured and furnished by the affiliated companies.

The company, on the contrary, insists that its affiliations with other Bell telephone companies and enterprises result in distinct benefits to the public and lower rather than increased cost of service. Western Electric Company material prices and charges for service are not too high in the opinion of the company, and payments made for services to the American company and divisions of joint revenues and expenses are fair.

We have already dealt with the so-called licensee revenue payment and allowed in our expense estimate the sum of \$120,000 per annum as a reasonable and fair compensation for the service rendered by the American company, through the Pacific company, to applicant under the terms of the agreement of May 31, 1917, (company's Exhibit No. 29). We believe no sum larger than \$120,000 for this purpose should be charged to operation and that whatever additional amount this applicant elects to pay to the Pacific company, or to the American company, under the terms of this contract, should be a deduction from net income. On the expiration of the present contract at the end of next year the reasonableness of its terms will be before the Commission. We have also stated our view on the matter of apportionment of toll revenue and are of the opinion that this matter cannot be properly decided in this case.

Applicant is controlled by the Pacific company through ownership of all the outstanding stock, except a few qualifying directors' shares (60,869 shares of a par value of \$6,-

086,900). No dividends have been paid on this stock. The Pacific company owns none of the applicant's outstanding bonds and receives, therefore, no bond interest. The Pacific company, however, has loaned to applicant considerable amounts for construction and on these loans interest is paid at the rate of 6 per cent. For labor and material delivered to applicant by the Pacific company, or *vice versa*, the actual cost is charged and paid. The Pacific company also collects from applicant the so-called licensee revenue and turns it over, without deduction, to the American company.

Applicant is indirectly controlled by the American company through the latter's ownership of the majority of the stock of the Pacific company (73.3 per cent. on December 31, 1920). The American company owns none of applicant's bonds or notes. Indirectly it receives the licensee payment paid the Pacific company and such interest and dividends as it may earn through ownership of the securities of the Pacific company and of the Western Electric Company.

The licensee payment agreement referred to above provides for a payment of $4\frac{1}{2}$ per cent. on gross revenue, the computation to be made as follows:

"The same proportion of the gross earnings of the Southern company as the proportion of the instruments not furnished by the American company bears to the total number of instruments used in the service of the Southern company. This plan to be effective until January 1, 1923, provided, however, that the proportion of the gross earnings so excluded shall, at no time, be more than at the beginning of business by the Southern company."

The question of equitable contract terms will arise, therefore, after January 1, 1923.

The matter of the $4\frac{1}{2}$ per cent. payment by its subsidiaries to the American company has had the attention of this Commission repeatedly and particular reference is here made to Decision No. 1254* (*San Jose Telephone Rate*

* See Commission Leaflet No. 30, p. 1158.

Case, Vol. 4, page 150, Opinions and Orders of the California Railroad Commission). We believe that a payment on a mere percentage basis, regardless of the kind and quality of the service rendered, is not a fair measure of such services. A truer measure can be had, we believe, by estimating as accurately as possible what the value of such service amounts to in each particular case and this method we have applied in this instance.

With reference to this applicant's relations to other affiliated companies, we have reached no definite conclusions. A decision on that point we do not consider essential to a determination of this case. This matter should be reserved for a more thorough analysis in the pending State-wide telephone rate case.

SERVICE.

We have given particular attention in this proceeding to the matter of service. Reference has already been made to the service investigation instituted by the Commission in Case 1531. That proceeding will be kept open and, further, careful attention will be given by the Commission to this matter. Counsel for the company has urged that the service now rendered by applicant in Los Angeles is excellent. This statement is not borne out by the facts before the Commission.

Service conditions must be improved and means must be found to meet more promptly and more satisfactorily than in the past the demand for new telephones that is bound to continue at a rapid rate in Los Angeles. The rates fixed in this decision will make it possible for applicant to render a high-class telephone service.

The Commission's telephone engineers, in conjunction with the engineers of the board of public utilities of the city of Los Angeles, made an analysis of the company's records of service observations and of trouble records. In addition, an independent service test was conducted by these engineers. The analysis of the company's own

records led to the conclusion that the management is making satisfactory efforts to give good service, but that the number of troubles reported is excessive, that the actual trouble is not cleared with sufficient promptness and that the investigation of a considerable portion of the troubles is not carried far enough to determine and eliminate the condition occasioning the report. The independent service tests led to the conclusion that the plant and equipment is not being maintained in such condition as to provide good service and that a larger number of better trained employees is required for the proper maintenance of the plant.

Since these conclusions were reached, the company has made arrangements, upon the Commission's suggestion, to increase its maintenance and construction forces and we believe an improved service may confidently be expected.

The following form of order is suggested:

ORDER.

Southern California Telephone Company having applied to the Commission for an order fixing just and reasonable rates for telephone service, for the fixing of an effective date and for the definition of exchanges and exchange boundaries, together with rules and regulations; hearings having been held and the Commission basing its conclusions on the foregoing opinion, and finding as a fact that the rates authorized and the classes of service suggested in this opinion, together with the exchange area and boundaries defined, are just and reasonable;

It is hereby ordered, That applicant file with the Commission within fifteen days of the date of this order a schedule of rates and services as outlined in the preceding opinion. Upon approval by the Commission of the schedule so filed, applicant is authorized to make these rates effective as of January 1, 1922, such authorization to be subject to the following conditions:

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- (1) Adequate and efficient telephone service shall be rendered at all times for all classes of service.
- (2) Applicant shall file with the Commission within fifteen days of this order, for the approval of the Commission, a map showing the Los Angeles primary rate area as outlined in the foregoing opinion.
- (3) Applicant shall submit to the Commission, within fifteen days from the date of this order, its proposed rules and regulations to conform to the rate structure outlined in the foregoing opinion and to the prescribed rate area.

The foregoing opinion and order are hereby approved and ordered filed as the opinion and order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this fourteenth day of December, 1921.

FLORIDA.

Railroad Commissioners.

In re APPLICATION OF THE FLORIDA TELEPHONE COMPANY TO
INCREASE ITS RATES IN THE STATE OF FLORIDA.

File No. 370 — Order No. 732.

Decided December 6, 1921.

**Increase in Rates Authorized — Free Toll Line Service Abolished and
Toll Rates Established — Charges for Moves and Changes
Authorized — Deposit Required from New Subscribers.**

ORDER.

On application of the Florida Telephone Company to increase its exchange rates at Branford, Jasper, Jennings, Live Oak, Mayo, O'Brien, Wellborn and White Springs; to abolish free toll line service at Branford, O'Brien and Wellborn; and to make miscellaneous rates and rules affecting service in the various named exchanges; the Railroad Commissioners of the State of Florida gave written notice that on Wednesday, June 15, 1921, at 3 o'clock p. m., they would be in session at the court house in the city of Live Oak, Florida, to hear and consider the applicant's petition to increase its exchange rates and for authority to make miscellaneous rates and rules affecting service in the exchanges of Branford, Live Oak, Mayo, O'Brien and Wellborn; and further, that they would be in session at the court house in the city of Jasper on Thursday, June 16, 1921, at 3 o'clock p. m., to hear and consider the applicant's petition to increase its exchange rates and for authority to make miscellaneous rates and rules affecting service in the exchanges of Jasper, Jennings and White Springs, and to hear and consider such other matters as may properly arise in the premises.

Pursuant to said notices the above-entitled proceedings came on for hearing before said Commissioners at the times and places set forth in said notices, and then and there appeared at said hearing held at Live Oak, Florida,

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the following persons: *Otto Wettstein, Jr.*, manager, and *J. B. Johnson*, attorney, appearing for the applicant; *J. L. Blackwin* and *John F. Harrell* appearing for the city of Live Oak; *J. V. Brown*, *J. W. Blume*, *D. K. Clippinger*, *John Burnett*, *C. H. Tedder*, *C. E. Hail*, *A. E. Leslie*, *Geo. F. Allison*, *W. D. Hawkins* and *G. L. Dorman*, appearing for the public; and then and there appeared at said hearing held at Jasper, Florida, the following persons: *Otto Wettstein, Jr.*, manager, and *J. B. Johnson*, attorney, appearing for the applicant. A resolution favoring an increase in rates as applied to Jasper was filed by the Jasper Board of Trade.

And at said times and places said Commissioners heard and took the testimony of witnesses given under oath, and heard all parties desiring to be heard, and then and there took said matter under consideration.

And now on this day the said matter coming on for further and final consideration before said Commissioners in regular session at their office in the city of Tallahassee, Florida; and the said Commissioners being fully advised in the premises, do find from the evidence regularly adduced before them at said hearings that they ought to grant the application of the said Florida Telephone Company.

Wherefore, it is ordered by the said Commissioners, That the following schedule of maximum rates for telephone service furnished by the Florida Telephone Company at the various exchanges, respectively, as hereinafter set forth, be, and is hereby, authorized, to-wit:

BRANFORD, FLORIDA.
Within City Limits.

*Rates Authorized
Per Month*

Wall Telephones:

Business, one-party	\$3 00
Business, two-party	2 50
Residence, one-party	2 25
Residence, two-party	2 00
Residence, four-party	1 75
Extension	1 00
Desk telephones, additional.....	25

Outside City Limits.

<i>Wall Telephones, Four-Party and More:</i>		<i>Rates Authorized</i>
<i>Five Miles or Less from City Limits:</i>		<i>Per Month</i>
Business		\$3 00
Residence		2 50
<i>More than Five Miles from City Limits:</i>		
Business		3 50
Residence		3 00
Desk telephones, additional.....		25
Switching farm stations.....		1 00

The applicant is given permission to establish from Branford a rate of 10 cents to O'Brien and 25 cents to Live Oak, for three-minute messages.

JASPER, FLORIDA.

Within City Limits.

<i>Wall Telephones:</i>	<i>Rates Authorized</i>
	<i>Per Month</i>
Business, one-party	\$3 00
Business, two-party	2 50
Residence, one-party	2 25
Residence, two-party	2 00
Residence, four-party	1 75
Extension	1 00
Desk telephones, additional.....	25

Outside City Limits.

<i>Wall Telephones, Four-Party and More:</i>	
<i>Five Miles or Less from City Limits:</i>	
Business	3 00
Residence	2 50
<i>More than Five Miles from City Limits:</i>	
Business	3 50
Residence	3 00
Desk telephones, additional.....	25
Switching farm stations.....	1 00

JENNINGS, FLORIDA.

Within City Limits.

<i>Wall Telephones:</i>	<i>Rates Authorized Per Month</i>
Business, one-party	\$3 00
Business, two-party	2 50
Residence, one-party	2 25
Residence, two-party	2 00
Residence, four-party	1 75
Extension	1 00
Desk telephones, additional.....	25

Outside City Limits.

<i>Wall Telephones, Four-Party and More:</i>	<i>Rates Authorized Per Month</i>
<i>Five Miles or Less from City Limits:</i>	
Business	\$3 00
Residence	2 50
<i>More than Five Miles from City Limits:</i>	
Business	3 50
Residence	3 00
Desk telephones, additional.....	25
Switching farm stations.....	1 00

MAYO, FLORIDA.

Within City Limits.

<i>Wall Telephones:</i>	<i>Rates Authorized Per Month.</i>
Business, one-party	\$3 00
Business, two-party	2 50
Residence, one-party	2 25
Residence, two-party	2 00
Residence, four-party	1 75
Extension	1 00
Desk telephones, additional.....	25

Outside City Limits.

<i>Wall Telephones, Four-Party and More:</i>	<i>Rates Authorized Per Month</i>
<i>Five Miles or Less from City Limits:</i>	
Business	\$3 00
Residence	2 50
<i>More than Five Miles from City Limits:</i>	
Business	3 50
Residence	3 00
Desk telephones, additional.....	25
Switching farm stations.....	1 00

O'BRIEN, FLORIDA.

Within City Limits.

<i>Wall Telephones:</i>	<i>Rates Authorized Per Month.</i>
Business, one-party	\$3 00
Business, two-party	2 50
Residence, one-party	2 25
Residence, two-party	2 00
Residence, four-party	1 75
Extension	1 00
Desk telephones, additional.....	25

Outside City Limits.

<i>Wall Telephones, Four-Party and More: Five Miles or Less from City Limits:</i>	<i>Rates Authorized Per Month</i>
Business	\$3 00
Residence	2 50
<i>More than Five Miles from City Limits:</i>	
Business	3 50
Residence	3 00
Desk telephones, additional.....	25
Switching farm stations.....	1 00

The applicant is given authority to establish from O'Brien a rate of 10 cents to Branford, 20 cents to Live Oak and 30 cents to Wellborn, for three-minute messages.

WELLBORN, FLORIDA.

Within City Limits.

<i>Wall Telephones:</i>	<i>Rates Authorized Per Month.</i>
Business, one-party	\$3 00
Business, two-party	2 50
Residence, one-party	2 25
Residence, two-party	2 00
Residence, four-party	1 75
Extension	1 00
Desk telephones, additional.....	25

Outside City Limits.

<i>Wall Telephones, Four-Party and More:</i>	<i>Rates Authorized</i>
<i>Five Miles or Less from City Limits:</i>	<i>Per Month.</i>
Business	\$3 00
Residence	2 50
<i>More than Five Miles from City Limits:</i>	
Business	3 50
Residence	3 00
Desk telephones, additional.....	25
Switching farm stations.....	1 00

The applicant is given authority to establish from Well-born a rate of 15 cents to Live Oak and 30 cents to O'Brien, for three-minute messages.

WHITE SPRINGS, FLORIDA.

Within City Limits.

<i>Wall Telephones:</i>	<i>Rates Authorized</i>
	<i>Per Month.</i>
Business, one-party	\$3 00
Business, two-party	2 50
Residence, one-party	2 25
Residence, two-party	2 00
Residence, four-party	1 75
Extension	1 00
Desk telephones, additional.....	25

Outside City Limits.

<i>Wall Telephones, Four-Party and More:</i>	<i>Rates Authorized</i>
<i>Five Miles or Less from City Limits:</i>	<i>Per Month.</i>
Business	\$3 00
Residence	2 50
<i>More than Five Miles from City Limits:</i>	
Business	3 50
Residence	3 00
Desk telephones, additional.....	25
Switching farm stations.....	1 00

LIVE OAK, FLORIDA.

Within City Limits.

<i>Wall Telephones:</i>	<i>Rates Authorized Per Month.</i>
Business, one-party	\$3 50
Business, two-party	3 00
Residence, one-party	2 50
Residence, two-party	2 25
Residence, four-party	2 00
Extension	1 00
Desk telephones, additional.....	25

Outside City Limits.

<i>Wall Telephones, Four-Party and More: Five Miles or Less from City Limits:</i>	<i>Rates Authorized Per Month.</i>
Business	\$3 00
Residence	2 50
<i>More than Five Miles from City Limits:</i>	
Business	3 50
Residence	3 00
Desk telephones, additional.....	25
Switching farm stations.....	1 00

It is further ordered, That the said applicant is given authority to make miscellaneous rates and rules affecting service in the exchanges of Branford, Jasper, Jennings, Live Oak, Mayo, O'Brien, Wellborn and White Springs, as follows:

MISCELLANEOUS RATES.

Charges for Moves and Changes:

Moving station from one location to another in same room	\$1 00
Moving station from one location to another in same building	2 00
Moving station from one building to another.....	3 00

Joint User Rate:

	<i>Per Month</i>
Business	\$1 50
Residence	1 00
Rural	1 00

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<i>Private Branch Exchange Rates:</i>	<i>Per Month</i>
Trunk lines	\$3 50
Each wall telephone	1 00
Each desk telephone.....	1 25
One position switchboard.....	3 00
Ringing current	1 00

Miscellaneous Equipment and Service:

Extension gong	\$0 50
Extension bell	25
Auxiliary receiver	15
Extra listing	25

Miscellaneous Rates Outside Exchange Area:

One-, two- and four-party line service shall be furnished at exchange rate, plus 42 cents monthly per one-fourth mile or fraction thereof, to be prorated between stations on line; mileage to be computed on air line measurements.

Farmer Line Service:

When the subscribers own their lines and equipment and maintain same up to the exchange, the rate of charge shall be \$10.00 per month for each line so connected, payable monthly in advance, with a maximum of 10 stations on each line.

Slots:

For the convenience of subscriber in paying cash toll, coin slot machines will be rented at 25 cents per month.

Deposit Requirement:

A deposit of \$3.50 is required from each new subscriber to be forfeited in the event the subscriber surrenders telephone before the expiration of the term for which subscriber contracts, but in the event subscriber retains telephone connection for the period contracted for, the deposit of \$3.50 will be returned to said subscriber or credited to his account; three months being the minimum period for which contract for service will be executed, but no collection of rentals for more than one month shall be made in advance.

The above deposit is to be required only in cases where a telephone has to be installed, and does not apply where a telephone is already in place, nor does it apply to extensions. Where the full contract rate is paid at the time of the application for telephone the deposit for installation shall not be required.

Season Rates:

Season rates are based on service for a period of not less than three months, and are the regular monthly rates plus 50 per cent. thereof,

with the privilege to the subscriber of changing the season contract to an annual contract upon notice. Where a season contract is changed to an annual contract, and the full annual contract rate has been paid, service will be rendered for the remainder of the year without further payment. Where the full season contract rate is paid at the time of the application for telephone the \$3.50 deposit required for installation shall not be exacted.

Temporary Suspension:

When the residence or business place of a subscriber is closed and telephone not disconnected, a reduction in charge for the telephone service during the time service is discontinued will be allowed upon the following conditions:

- (a) Upon written request of the subscriber.
- (b) Suspension for a period of not less than one month and not to exceed four months.
- (c) Charge for service during suspended period will be one-half the schedule rate.
- (d) Charge for service during suspension must be collected in advance.

Annual Payments:

Discount of 10 per cent. will be allowed for annual payments for exchange service after expiration of first annual contract.

Rules Affecting Rates and Service:

- (1.) Bills for service are rendered monthly.
- (2.) Bills are payable in advance on or before the tenth of the month at office of company.
- (3.) Service is discontinued if not paid before the tenth day of each month it becomes due.

It is further ordered, That the rates and charges hereby authorized shall become effective on the first day of January, 1922, and that the said applicant shall file its said revised schedule of rates, charges and rules within ten days after the effective date hereof.

It is further ordered, That this docket shall remain open for such further and other order in the premises as may be justified, jurisdiction being retained for that purpose.

Done and ordered by the Railroad Commissioners of the State of Florida, in session at their office in the city of Tallahassee, Florida, this sixth day of December, 1921.

GEORGIA.

Railroad Commission.

In re APPLICATION OF THE FRUIT BELT TELEPHONE COMPANY
FOR INCREASE IN RATES.

File No. 14234.

Decided January 26, 1922.

Increase in Rates Authorized.

ORDER.

Upon consideration of the record in the above-stated case and of the evidence and argument submitted at the hearing had thereon,

It is ordered, That, effective on and after February 1, 1922, and until the further order of this Commission, the following schedule of rates shall be the maximum schedule of rates for local exchange telephone service to be charged by the Fruit Belt Telephone Company:

	<i>Per Month</i>
Unlimited, special line, business station.....	\$4 50
Unlimited, duplex line, business station.....	3 75
Unlimited, special line, seasonal.....	4 50
Unlimited, extension line, business station.....	1 50
Unlimited, P.B.X., two-way flat.....	6 50
Unlimited, P.B.X., trunk, long distance.....	3 50
Unlimited, special line, residence station.....	2 75
Unlimited, duplex, residence station.....	2 25
Unlimited, extension line, residence, station.....	1 00

Country or Farmers Lines:

Where owned and maintained by company, per station..	2 00
Where owned and maintained by subscriber, per station (minimum for each line, 6 stations).....	75

January 26, 1922.*

*On the same day the following increased rates were authorized, effective February 1, 1922: rural, multi-party line (line, stations and equipment owned and maintained by the company), distance 5 miles and under, \$2.00 per month; distance 10 miles and over 5 miles, \$2.50 per month; distance over 10 miles, \$3.00 per month, *In re Bulloch Telephone Company* (No. 15040).

ILLINOIS.

Commerce Commission.

In re PROPOSED FINDINGS IN RATES FOR TELEPHONE SERVICE
IN CORDOVA, COUNTY OF ROCK ISLAND, AND SURROUNDING
FARMING COMMUNITY AS STATED IN RATE SCHEDULE I. P.
U. C. 1, OF THE CORDOVA TELEPHONE COMPANY.

Case No. 11277.

Decided December 1, 1921.

**Value Determined — Increase in Rates Authorized — Amount Ordered
Set Aside on a Monthly Basis for Reserve for Depreciation —
Refund of Charges Illegally Collected Ordered.**

FINAL ORDER.

On January 5, 1921, the Cordova Telephone Company filed with the Commission Rate Schedule I. P. U. C. 1, in which it is proposed to advance the rates for telephone service in Cordova, county of Rock Island, and the surrounding farming community, and it is further proposed that said rates become effective on February 5, 1921.

It having appeared from an examination of the said schedule that a hearing should be held concerning the reasonableness of the proposed rates, the Commission on January 17, 1921, suspended the said rates until June 5, 1921, and subsequently further suspended the proposed rates pending a final determination as to the reasonableness thereof.

All interested parties having been notified the matter came on for hearing before the Commission on March 10, 1921, at which time the Cordova Telephone Company was represented by *C. D. Marshall*, attorney. Further hearing in this matter was also held in the office of the Commission in Chicago on December 1, 1921, at which time the Cordova Telephone Company was represented by *Mr. John Mackey*. No one appeared objecting.

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The company submitted a statement of operating expenses and a statement showing the estimated annual revenue under the present and proposed rates. The engineering department of the Commission submitted an inventory and appraisal of the property as of April 18, 1921. It was stipulated that the annual report of the Cordova Telephone Company, filed with the Commission and covering the operations of the company for the year 1920, should also become a part of the record.

From the evidence it appears that the Cordova Telephone Company now has on file with the Commission a rate of \$9.00 per annum for all classes of telephone service which it proposes to increase to \$15.00 per annum. The record shows that on April 18, 1921, the Cordova Telephone Company was furnishing service to 157 subscribers, approximately 100 of which subscribers are stockholders in the company.

The inventory and appraisal submitted by the engineering section of the Commission shows reproduction cost new of the property, used and useful in furnishing telephone service in the town of Cordova and the rural territory surrounding same, to be \$6,405, and the reproduction cost new, less depreciation, of the physical property to be \$3,634. From the evidence of record a fair value of the property, used and useful in furnishing telephone service in the town of Cordova, county of Rock Island, and vicinity, appears to be \$4,800.

In an exhibit filed by the engineering staff of the Commission the annual depreciation now accruing in the physical portion of the property is \$430. Testimony presented by the engineering staff indicates that this depreciation is arrived at on the so-called straight line method and that no consideration was given to interest accruing on money held in reserve. The Commission believes, however, that the setting aside of \$400 annually will be sufficient to take care of accruing depreciation.

It also appears from the evidence that the total operating expense of the Cordova Telephone Company, including

an allowance of \$400 as a reserve for accruing depreciation, is \$1,606. The estimated annual revenue under the present rate of \$9.00 per station, including revenue from toll calls, amounts to \$1,437, thus indicating a deficit under the present rates of \$169 per year. The estimated annual revenue under the proposed rates of \$15.00 per station per annum, including toll revenue, is \$2,379, thus resulting in a net annual income of \$773, which is a return of 16.1 per cent. upon \$4,800. This rate of return appears to be excessive. A modified schedule of rates of \$12.00 per annum will result in a net annual revenue of \$1,908, which will produce a net annual income of \$302, equivalent to 6.3 per cent. upon the fair value of the property.

From the evidence of record it appears that the proposed rates stated in Schedule I. P. U. C. 1, filed with the Commission on January 5, 1921, effective February 5, 1921, were actually placed in effect about January 1, 1921. While the rates thus placed in effect were illegal rates, the evidence shows that a reasonable rate for the period from January 1, 1921, to December 1, 1921, would be at the rate of \$12.00 per annum and, therefore, the Commission is of the opinion that reparation should be made to subscribers for the difference between the rates hereinafter authorized, effective December 1, 1921, and the rates in excess that have been collected by the company for the period specified.

Having given due consideration to the evidence of record in this cause, the Commission is of the opinion, and finds:

1. That a fair value of the property, used and useful in furnishing telephone service in Cordova, county of Rock Island, and vicinity, including every item of value, tangible and intangible, as of April 18, 1921, is \$4,800.

2. That a reasonable allowance as an item of operating expense to meet the depreciation now accruing in the physical property of the company is \$400 plus 6 per cent. of all additions and betterments made subsequent to April 18, 1921.

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3. That the reasonable annual operating expense of the Cordova Telephone Company, including an allowance of \$400 as a reserve for depreciation, is \$1,606.

4. That the present schedule of rates on file with the Commission will produce an annual operating revenue of \$1,437, thus resulting in a net annual deficit of \$169.

5. That the proposed schedule of rates will produce an annual revenue of \$2,379, thus resulting in a net annual income of \$773, which is a return of 16.1 per cent. on the fair value of the plant, and therefore the proposed schedule of rates is unjust and unreasonable.

6. That the modified schedule of rates hereinafter authorized are just and reasonable rates and will produce an annual revenue of \$1,908, thus resulting in a net annual income of \$302, or 6.3 per cent. on the fair value of the property.

7. That the Cordova Telephone Company should refund to its subscribers, at the rate of \$3.00 per annum, the moneys collected by it during the period from January 1, 1921, to November 30, 1921, being the difference between the rate of \$15.00 per annum, the rate illegally charged, and \$12.00 per annum, the rate hereinafter authorized.

It is, therefore, ordered by the Illinois Commerce Commission as follows:

Section 1. That Rate Schedule I. P. U. C. 1, of the Cordova Telephone Company covering telephone service in Cordova, county of Rock Island, and vicinity, be, and the same is hereby, permanently suspended, cancelled and annulled.

Section 2. That the Cordova Telephone Company be, and the same is hereby, required and directed to file a certain schedule of rates to be designated as I. P. U. C. 2, covering telephone service in Cordova, county of Rock Island, and vicinity, effective December 1, 1921, within ten days of the date of service of this order. The said schedule of rates shall be stated in words and figures as follows:

MODIFIED RATES.

	<i>Annual Rates</i>
All classes of service.....	\$12 00

Time of service, 6:00 A. M to 9:00 P. M. on week days; and from 5:30 P. M. to 7:30 P. M. on Sundays and holidays. All subscribers furnish their own telephone apparatus in their premises and keep the same in repair.

The charge of \$12.00 per year, is payable as follows: January 1, \$6.00; July 1, \$6.00; each year in advance.

Section 3. That the Cordova Telephone Company set aside an annual amount of \$400 to provide a reasonable reserve against depreciation, plus 6 per cent. of the cost per annum of all annual additions that may be made to the plant of the Cordova Telephone Company after April 18, 1921.

Section 4. That all items of expense having to do with the upkeep of the plant shall be treated strictly in accordance with the uniform system of accounts for telephone companies, now in effect by this Commission, particular attention being given to the proper proportionment between maintenance expense and expense due to depreciation of plant and equipment.

Section 5. That the Cordova Telephone Company should refund to its subscribers, at the rate of \$3.00 per annum, the moneys collected by it during the period from January 1, 1921, to November 30, 1921, being the difference between the rate of \$15.00 per annum, the rate illegally charged, and \$12.00 per annum, the rate herein authorized, and that such refund shall be made within sixty days from the date of service of this order.

Section 6. That the Cordova Telephone Company shall notify the secretary of the Commission, in writing, of the fact that it has complied with the order of the Commission pertaining to reparation, within ten days after the company has complied with the order relating thereto.

By order of the Commission, at Chicago, Illinois, this first day of December, 1921.

INDIANA.

Public Service Commission.

In re PETITION OF THE CITIZENS TELEPHONE COMPANY FOR
AUTHORITY TO INCREASE RATES.

No. 6017.

Decided August 26, 1921.

**Tentative Value Fixed—Free Service Under Franchise Agreement
Ordered Discontinued—Increase in Rates Authorized.**

ORDER.

On May 10, 1921, petitioner filed with the Commission its petition averring that it is an Indiana corporation with its principal place of business in Dunkirk and that as a public utility it is engaged in the furnishing of telephone service in Dunkirk and vicinity; that its present schedule of rates is inadequate and that the revenue afforded therefrom is wholly insufficient to meet necessary operating and maintenance expenses, depreciation contingent and emergency and pay a reasonable return upon the investment.

Petitioner asks authority to increase its rates sufficiently to provide an adequate return.

The Commission caused its accounting department to make an audit of petitioner's books and records for the period ending May 31, 1921, a report of which audit was introduced in evidence as Exhibit No. 1.

After due notice the matter was heard in the town hall at Dunkirk on August 4, 1921.

The income account of petitioner for the years 1919, 1920, and the first five months of 1921, as shown on page 10 of the audit, is as follows:

INCOME ACCOUNT.

	January 1 to December 31, 1919	January 1 to December 31, 1920	January 1 to May 31, 1921
<i>Operating Revenues:</i>			
Subscribers' station revenues.....	\$9,397 59	\$9,393 80	\$4,090 95
Toll revenues.....	2,031 52	2,416 97	381 86
Service connection charges.....		376 00	128 00
TOTAL OPERATING REVENUES.....	\$11,429 11	\$12,186 77	\$4,600 81
<i>Operating Expenses:</i>			
Maintenance.....	\$4,088 01	\$5,375 70	\$1,783 25
Traffic.....	2,922 46	3,445 67	1,506 74
Commercial.....		340 00	187 50
General and miscellaneous.....	1,025 00	668 50	133 50
TOTAL ABOVE ITEMS.....	\$8,035 47	\$9,829 87	\$3,610 99
Taxes.....	1,080 00	262 00	127 00
Uncollectable accounts.....		101 70	
TOTAL OPERATING EXPENSES.....	\$9,115 47	\$10,193 57	\$3,737 99
NET OPERATING REVENUE (GROSS INCOME).....	\$2,313 64	\$1,993 20	\$862 82
<i>Deductions from Gross Income:</i>			
Interest.....		\$154 00	\$225 00
Rent of office and wareroom.....	\$316 00	244 50	100 00
TOTAL DEDUCTIONS.....	\$316 00	\$398 50	\$325 00
NET INCOME.....	\$1,997 64	\$1,594 70	\$537 82

It appears that the petitioner's net income after eliminating the item of \$154 for interest for the year 1920 was \$1,748.70.

The evidence shows that petitioner asks an allowance of \$600 per annum for management and general supervision by the manager who lives in Winchester, an additional \$300 for bookkeeping, bringing that item to \$900, and for liability insurance \$150, a total increase of \$1,050. In view of the fact that petitioner's books are kept at Winchester along with those of several other exchanges, the Commission is of the opinion that \$50.00 per month is too high for the keeping of the books of such a small company and will not allow this increase. The items for management and insurance will be allowed. There will be allowed \$650 for taxes, based upon the amounts paid during the last two years.

VALUATION.

In an appraisal made by the engineering department of the Commission as of August 1, 1919, the cost of reproduction was given as \$39,283, and the present value as \$29,537. The value of the depreciable property was then \$28,003. There have been additions to petitioner's property since that time. Both petitioner and the representative of the city agreed on \$40,000 as the fair value of petitioner's property. For the purpose of this cause the Commission will place a tentative estimate of value on petitioner's property of \$40,000 and on the depreciable property of \$35,000.

DEPRECIATION.

It appears that petitioner has been crediting to a reserve for depreciation \$210 per month, or \$2,520 per annum. During 1920 only \$226.64 was charged against depreciation and in 1921 up to May 31, only \$137.11. It will be noted that in the above income account \$5,375.70 was charged to maintenance, the analysis of which item includes \$2,520 for depreciation. An allowance of \$1,750, or 5 per cent. on \$35,000, would be ample.

The balance credited to the reserve for accrued depreciation is \$13,524.33 as of May 31, 1921. It is obvious, therefore, that petitioner has been charging to maintenance items which should have been charged to depreciation. The Commission will estimate that in 1920 there was improperly charged to maintenance the difference between 50 per cent. of the proper depreciation charge (one-half of \$1,750) \$875 and \$226.64, which was actually charged to depreciation, or \$648.36. In estimating petitioner's operating requirements for a projected year, the Commission will allow \$1,750 for depreciation and will deduct \$648.36 from maintenance.

The Commission is of the opinion that the following table will fairly reflect petitioner's operating revenues and requirements for a projected year:

ESTIMATED REVENUES AND REQUIREMENTS BASED ON 1920 REVENUES.

Operating Revenues:

Total 1920	\$12,186 77
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*Requirements.**Operating Expenses:*

Total 1920, excluding depreciation.....	\$7,309 87
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Rent	244 50
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Manager's salary and insurance (additional)	750 00
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	\$8,304 37
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Deduct from maintenance.....	648 36
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TOTAL OPERATING EXPENSES.....	\$7,656 01
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Taxes	650 00
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Depreciation:

Five per cent. on \$35,000.....	1,750 00
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	\$10,056 01
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	10,056 01
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NET INCOME	\$2,130 76
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The above net income of \$2,130.76 would pay a return of 5.3 per cent. on a value of \$40,000.

Petitioner's present rates and subscribers' station data are as follows:

PRESENT RATES AND SUBSCRIBERS' STATION DATA.

<i>Kind of Service:</i>	<i>Number of Tele- phones</i>	<i>Rate Per Month</i>	<i>Revenue Per Month</i>	<i>Revenue Per Year</i>
Business, single line, city.....	76	\$1 75	\$133 00	\$1,596 00
Business, party line, city.....	19	1 35	25 65	307 80
Residence, single line, city.....	233	1 25	291 25	3,495 00
Residence, party line, city.....	9	1 25	11 25	135 00
Residence, party line, city.....	33	1 15	37 95	455 40
Residence, party line, rural.....	251	1 25	313 75	3,765 00
Residence, single line, rural.....	1	1 75	1 75	21 00
Residence, single line, rural.....	3	1 25	3 75	45 00
City, franchise requirement.....	4	Free	.....	.....
TOTAL.....	629	.....	\$818 35	\$9,820 20
Residence extensions.....	3	50	1 50	18 00
Extension bells.....	1	25	25	3 00
TOTAL REVENUE.....			\$820 10	\$9,841 20

Petitioner proposes a schedule of net rates and further asks for a rate for P. B. X. service, and for a rule providing payment of business rates by business or professional persons using their residence telephones for business or professional purposes.

The Commission's records show that in 1919 there were 583 telephones, and the above data shows 629 telephones for the whole exchange. There were 42 party line telephones in 1919 and also in 1920, while the single line city residence telephones have increased from 214 to 233. The evidence shows that petitioner's switchboard is capable of taking care of a great deal more business, particularly party line business, but that petitioner has never made any very strong efforts to attract new business and has never carefully solicited the community for that purpose.

Petitioner is now furnishing free to the city, under its franchise agreement, four telephones. The Commission is compelled under the Public Service Commission Act, to require the discontinuance of free service. (*Greensburg Water Company v. Lewis et al.*, 128 N. E. 103).

The Commission after careful consideration finds that petitioner's rate structure is discriminatory and should be revised. Accordingly the Commission has reduced certain rates and slightly increased certain others. These revisions will increase petitioner's net income about \$526.80 which will provide a net income of \$2,657.56, or a net return of 6.6 per cent. on \$40,000.

A rate has also been provided for P. B. X. service, extra listing or joint user, and a gross rate 15 cents higher than net rates to be charged if bills are not paid within fifteen days.

It is therefore, ordered by the Public Service Commission of Indiana, That the Citizens Telephone Company be, and it is, authorized and directed to charge and collect the following schedule of rates for telephone service, effective thirty days after filing with the Commission as provided in this order, and until the further order of the Commission:

TELEPHONE SCHEDULE.

<i>Class of Service:</i>	<i>Per Month</i>	
	<i>Net</i>	<i>Gross</i>
Business, single line, city.....	\$2 00	\$2 15
Business, party line, city.....	1 50	1 65
Residence, single line, city (rural*).....	1 35	1 50
Residence, party line, city.....	1 25	1 40
Residence, party line, rural.....	1 20	1 35
Extra listing or joint user of business telephone..	1 00	1 15
Extra listing or joint user of residence telephone..	50	65
Extension telephones	50	.....
Extension bells	25	.....

* These rates shall apply to subscribers within the municipal corporate limits. Beyond such limits, there shall be added a line charge of 25 cents per month for each quarter mile of line.

Physicians and professional men having their offices at or in connection with residences shall be rated as business subscribers.

<i>Private Branch Exchange, Business, Unlimited:</i>	<i>Per Month</i>
Cord switchboard, minimum equipment (switchboard not exceeding 30 jacks, operator's set, 2 trunks and 2 stations),	\$13 00
Additional trunks, each.....	2 00
Additional stations, each.....	1 00

<i>Intercommunicating System, Business, Unlimited:</i>	<i>Per Month</i>
Minimum equipment (1 trunk and 4 stations).....	\$8 50
Maximum equipment (20 trunks and stations combined)	
Additional trunks, each.....	2 00
Additional stations, each.....	1 00
Additional units of cable, 30 feet or fraction thereof.....	25

If bills are paid within fifteen days, beginning with the day following the day bill is properly rendered, the net rates shall be charged; otherwise the gross rates shall be charged. When the fifteenth day falls on Sunday or any other legal holiday, the first business day thereafter shall be included in the discount period.

It is further ordered, That petitioner discontinue the practice of furnishing free service.

It is further ordered, That on or before September 1, 1921, petitioner shall file with the tariff department of this Commission, and shall post and keep posted in its office in full view of the public during the entire period such

schedule is in effect a printed or typewritten copy of such schedule of rates, as required by Sections 41-47 of the Public Service Commission Act.

August 26, 1921.

In re NORTHWESTERN INDIANA TELEPHONE COMPANY OF VALPARAISO FOR AUTHORITY TO ISSUE COMMON STOCK.

No. 6349.

Decided January 7, 1922.

Issue of Stock Authorized.

ORDER.

On November 14, 1921, petitioner filed with the Commission its petition averring:

That petitioner is an Indiana corporation operating a telephone utility; that it petitions the Commission for authority to issue and sell \$50,000 of the par value of its common stock divided into 500 shares of \$100 each; that it now has outstanding \$100,000 of its common stock; that said stock is to be issued and sold at par for the purpose of paying notes and trade acceptances of petitioner as follows:

Trade acceptance, due October 25, 1921.....	\$416 26
Trade acceptance, due November 25, 1921.....	773 10
Trade acceptance, due December 25, 1921.....	762 06
Note due December 21, 1921.....	4,000 00
Note due March 11, 1922.....	1,000 00
Note due March 17, 1922.....	500 00
Note due March 30, 1922.....	1,000 00
Note due April 27, 1922.....	500 00
Note due May 9, 1922.....	500 00
Note due July 1, 1922.....	6,000 00
Notes on demand.....	8,000 00
To reimburse the company's treasury for money used in plant extensions	8,382 48
Estimated to provide additional toll circuits between Valparaiso exchange and Hobart exchange.....	3,166 10
	<hr/>
	\$35,000 00

Petitioner proposes to hold the remaining \$15,000 as treasury stock and sell same when needed to provide for new lines and equipment and the extension of the company's service as public demand requires.

Petitioner further avers that the new lines and equipment and the extension of its service to be added to its plant consists of right-of-way, poles, lines and additional switchboard facilities, and subscribers' station equipment similar in construction and value to the property now owned and operated by petitioner; that said stock is to be sold to petitioner's present stockholders at par and if necessary to seek investors who are not stockholders of the company.

Petitioner submitted its balance sheet as of October 1, 1921, which is as follows:

LIABILITIES.

Common stock, outstanding.....	\$100,000 00
Preferred stock, outstanding	99,700 00
Accounts payable	3,248 05
Bills payable	23,451 42
No. 102, reserve for accrued depreciation.....	27,945 44
Tax liability	2,336 73
Corporate surplus unappropriated.....	6,299 39
Earnings	84,062 65
TOTAL	\$347,043 68

RESOURCES.

Cash on hand	\$83 60
Cash in bank.....	458 60
No. 118, due from subscribers and agents.....	7,518 85
No. 122, material and supplies.....	3,147 39
No. 168, deferred credit items.....	270 90
No. 210, land and buildings.....	22,566 80
Nos. 100-101, fixed capital.....	229,917 47
Other assets:	
Liberty bonds	3,400 00
Valparaiso Building and Loan Association stock.....	4,000 00
Expense undistributed	75,680 17
TOTAL	\$347,043 68

After due notice the matter was heard in Valparaiso on December 20, 1921.

The evidence shows that petitioner has no outstanding bonds or preferred stock; that the notes above enumerated were given for toll lines and for 140 new stations; and that the item of \$8,382.48 for which petitioner asks authority to reimburse its treasury for money used in plant extensions was expended for the following major items:

100 ft. of 400 pr. additional cable, into Valparaiso office.

800 ft. of 100 pr. additional cable, furnishing additional facilities to the business district and section north thereof, Valparaiso exchange.

3,600 ft. of 50 pr. cable; 2,000 ft. of 25 pr. cable, providing additional facilities to Chautauqua Park addition to Valparaiso.

20 miles of No. 080 copper wire to furnish additional toll circuit between Valparaiso exchange and Chesterton exchange.

1,250 ft. of 200 pr. underground cable; 2,400 ft. of 100 pr. underground cable now being installed at Hobart exchange to supply additional facilities to all parts of Hobart and the additions thereto.

In view of the fact that petitioner has shown expenditures aggregating only \$35,000 and since the contemplated additions and betterments for which the additional \$15,000 would be required have not been taken up, the Commission is of the opinion that at this time the authorization should be limited to \$35,000, and that at the time petitioner has need for the remaining \$15,000 it can apply to the Commission for authority to issue same, giving the purpose for which the proceeds are to be expended.

The Commission being fully advised is of the opinion that petitioner should be authorized to issue and sell at par \$35,000, par value, of its common capital stock for the purpose of reimbursing its treasury for money heretofore expended for additions and betterments not derived from the sale of other securities, and for the payment of the various notes and trade acceptances due and to become due which have been given by petitioner for the purpose of providing funds with which to make capital additions and betterments, all as above set forth.

It is therefore, ordered by the Public Service Commission of Indiana, That the Northwestern Indiana Telephone Company of Valparaiso be, and it is, authorized to issue and sell at not less than par \$35,000, par value, of its common capital stock, the proceeds to be used for the purposes above enumerated and for no other purposes.

It is further ordered, That before issuing or selling any of such securities, the Northwestern Indiana Telephone Company of Valparaiso shall pay to the Treasurer of State, through the secretary of this Commission the sum of \$52.50 the fee for the issuance of such securities prescribed in Section 96 of the Public Service Commission Act.

January 7, 1922.

In re JOINT PETITION OF THE PIKE COUNTY TELEPHONE COMPANY AND THE WHEATLAND INDEPENDENT TELEPHONE COMPANY FOR AUTHORITY TO PURCHASE AND SELL THE WHEATLAND INDEPENDENT TELEPHONE COMPANY'S PROPERTY.

No. 6411.

Decided January 13, 1922.

Sale and Purchase of Property Authorized.

ORDER.

On January 12, 1922, the Pike County Telephone Company of Petersburg, Indiana, and the Wheatland Independent Telephone Company of Wheatland, Indiana, Indiana corporations, filed with the Commission their joint petition, for authority to the former to purchase and the latter to sell the telephone property of the latter in and about Wheatland, Indiana.

The petition avers that the agreed price for the transfer of said property is \$6,000 to be paid by issuing and transferring \$3,000 of the first mortgage gold bonds, and \$3,000 of demand notes of the Pike County Telephone Company to the Wheatland Independent Telephone Company.

After due notice the matter was heard at the office of the Commission on January 13, 1922.

The evidence shows that the Pike County Telephone Company is an Indiana corporation, operating telephone exchanges, plants and systems in close proximity to the territory served by the Wheatland Independent Telephone Company, and that the latter company cannot operate the small property without suffering financial loss; that the Pike County Telephone Company being able to operate the Wheatland Independent Telephone Company in connection with its own system is able to operate same without loss; that early in the month of January, 1921, the Wheatland Independent Telephone Company asked the Pike County Telephone Company to take the property and operate same; that now each of petitioners have agreed to the purchase and sale of said property for the price and on the terms and conditions aforesaid and as of January 1, 1921.

The evidence further shows that none of the rates, tolls, charges or service of any kind are to be disturbed, and that the rates, tolls, charges and service are to remain the same as they have been heretofore.

The evidence shows that the proposed purchase and sale will promote the service instead of having a discontinuance of same, and that virtually all the stockholders of each company have agreed to the purchase and sale, and that the agreed price is not unreasonable.

The Commission being fully advised, finds that the petition should be granted.

It is, therefore, ordered by the Public Service Commission of Indiana, That the Pike County Telephone Company of Petersburg, be, and it is, authorized to purchase and the Wheatland Independent Telephone Company of Wheatland, be, and it is, authorized to sell all the property of the Wheatland Independent Telephone Company for a consideration of \$6,000 to be paid by \$3,000 of the Pike County Telephone Company's bonds, and its demand note for \$3,000.

January 13, 1922.

In re PETITION OF RICHMOND HOME TELEPHONE COMPANY
FOR APPROVAL OF CONTRACT WITH CITY OF RICHMOND
FIXING RATES.

No. 6394.

In re PETITION OF RICHMOND HOME TELEPHONE COMPANY
FOR AUTHORITY TO CHARGE CERTAIN SPECIAL RATES NOT
COVERED BY CONTRACT WITH CITY.

No. 6409.

Decided January 14, 1922.

**Increase in Rates as Fixed by Amended Franchise Authorized—In-
crease in Rural Rates and Rates for Special Service in City
Authorized.**

ORDER.

On December 22, 1921, the Richmond Home Telephone Company filed with the Commission a petition averring:

That it is an Indiana corporation operating a telephone utility in and about Richmond, Indiana; that it has been and is engaged in the operation of a telephone system of the automatic type under a franchise contract between itself and the board of public works of the city of Richmond approved by the common council of the city of Richmond on March 2, 1908, which franchise contract has never been surrendered by the petitioner and is now in effect except as modified by agreement as hereinafter set out.

Petitioner further alleges that on December 5, 1921, said franchise was modified by a contract between petitioner and the city of Richmond whereby petitioner was granted an increase in rates for certain telephone service within the city to take effect on January 1, 1922, a copy of which contract is set out in full in an ordinance passed by the common council by the city of Richmond on December 19, 1921, by which said contract was approved and ratified.

Added to and made a part of petitioner's petition was a certified copy of said ordinance of December 19, 1921, being No. 672 — 1921, the title to which is,

"An ordinance supplemental to, and amendatory of, a certain ordinance passed and approved by the common council and the mayor of the city of Richmond, Indiana, on the second day of March, 1908, entitled 'An ordinance to approve a certain contract made and entered into by and between the board of public works for and on behalf of the city of Richmond, Indiana, and the Richmond Home Telephone Company, relative to the construction and maintenance of conduits, manholes and other underground appliances for its telephone system, fixing and limiting the rates to be charged for its telephone service and other matters connected therewith,' and to ratify a certain contract made and entered into by and between the board of public works for and on behalf of said city of Richmond, Indiana, and said the Richmond Home Telephone Company on the fifth day of December, 1921, modifying said contract referred to in said ordinance and modifying said ordinance so ratifying the same by fixing and limiting the rates to be charged by said the Richmond Home Telephone Company for its service within said city from and after January 1, 1922."

This ordinance recited and described the contract of February 13, 1908, the rates therein agreed to, the ordinance of March 2, 1908, and further recited that since the making of said contract and the approval thereof, the telephone company has installed a large amount of additional equipment and has greatly enlarged and extended its automatic telephone system and has installed a large amount of additional underground construction and is now giving service to approximately 5,000 telephones; that conditions are so changed since the making of said contract of 1908 that said rates are inadequate and insufficient and that an increase in rates is necessary to enable petitioner to maintain first-class telephone service.

The ordinance further provides that it is agreed between the city and the telephone company that from January 1, 1922, the telephone company will be authorized and granted the right to charge and collect for its telephone service a schedule of rates therein set forth, which schedule will be set out in the appended order. It was further agreed that the sliding scale of rates of 25 cents per telephone, per month, additional to the rates specified in the contract of February 13, 1908, after each increase of 1,000 telephones above 2,000 telephones, was revoked and annulled as of

January 1, 1922. The ordinance further recites that it is contemplated by and between the parties that, if in the future the rates fixed and provided in this contract shall become inadequate and insufficient, the telephone company shall at such time make application for increase of such rates which application shall at such time be determined according to the merits and facts then existing.

It was further agreed that the contract of February 13, 1908, approved by the ordinance of March 2, 1908, shall continue in full force and effect except as the same is hereby modified. This contract of December 5, 1921, was approved and ratified by the ordinance of December 19, 1921.

The Richmond Home Telephone Company prays that an order be made ratifying and approving the contract so entered into between itself and the city of Richmond.

On December 30, 1921, the Richmond Home Telephone Company also filed with the Commission a petition for authority to increase certain rates and special telephone service within the city of Richmond and special rural service outside the city, which petition was docketed as Cause No. 6409. This petition alleges that the franchise and contract, as modified, which was above described, provides rates for business and residence service in the city but does not fix rates for special service within the city, the rates for which are now on file with the Public Service Commission and are incorporated in the schedule of rates set out in the petition here referred to.

Petitioner further alleges that for special rural service which includes individual, two-party, and four-party telephone service outside of Richmond it has charged the rates established in the city of Richmond plus line charges according to the schedule set out in the petition, which schedule has been approved by the Public Service Commission; that the rates for individual, two-party and four-party telephone service within the city of Richmond have been increased by a contract and ordinance approving same on December 19, 1921, effective January 1, 1922; and

that the rates for special rural service should be increased in the same amounts that the individual, two-party and four-party rates within the city have been increased.

The petition further alleges that certain of its rates for special service within the city are inadequate and should be increased; that certain new rates should be filed and established for service installed and commenced since the filing of the above schedule; that the classes of telephone service which petitioner hereby seeks to increase and the new service which is not covered by the foregoing schedule, and the respective rates proposed to be charged by petitioner are set forth in a schedule which follows, which schedule is hereafter set out.

After due notice the matter was heard in the offices of the Commission on January 9, 1922.

The evidence shows that a great deal of publicity has been given the matter of the proposed increase in rates through the public press, and that the proceedings of the common council of the city of Richmond, whereby the proposed rates were agreed upon, were likewise given full publicity.

There was introduced in evidence as respondent's Exhibit No. 1, a report of the examination of the books and records of the Richmond Home Telephone Company for the period January 1, 1917, to October 31, 1921. This report, among other things, shows the property and plant account of petitioner as well as petitioner's balance sheet as of October 31, 1921. An examination of the income account of petitioner shown on page 13 of this exhibit inevitably leads the Commission to the conclusion that the necessity for increasing rates of petitioner is urgent, and that the Commission will not necessarily have to find a value for the purpose of determining the propriety of approving the contract for rates entered into between the city and petitioner. There was also introduced in evidence as petitioner's Exhibit No. 4 a letter from the accountant who made the report above referred to in which it is recommended that the proposed rates would yield a sufficient

return on the book value of petitioner's property; that the proposed rates should be reduced in the case of individual residence telephones to provide an increase of 25 cents per month for this class of service instead of 50 cents and that the sliding scale feature of the present rate contract be abrogated, as has been done in the ordinance, approval of which is here sought.

A schedule of the present and proposed rates for those classes of service embodied in the rate contract between the city and the petitioner is as follows:

<i>Class of Service:</i>	<i>Per Month</i>	
	<i>Present</i>	<i>Proposed</i>
Private line, business.....	\$3 50	\$4 50
Two-party line, business.....	3 00	3 50
Four-party line, business.....	2 50	3 00
Private line, residence.....	2 00	2 25
Two-party line, residence.....	1 75	2 00
Four-party line, residence.....	1 50	1 75

There were no other rates provided in the franchise contract, the approval of which is here sought with the exception that the sliding scale arrangement whereby an additional 25 cents per month is added for each 1,000 telephones added to the exchange, was stricken out.

The evidence shows that petitioner has not surrendered its franchise with the city of Richmond and is still operating thereunder; that the city and petitioner have entered into a compromise rate agreement and have agreed to and embodied in the franchise a schedule of rates for service within the city of Richmond.

The Commission having been fully advised is of the opinion, and finds, that the schedule of rates for regular service within the city which have been agreed to by and between the parties, and which are set forth in the petition in Cause No. 6394 are reasonable and should be approved, and it will be so ordered. Petitioner further sets out in its petition in Cause No. 6409, which was considered in connection with that of Cause No. 6394, a schedule of rates for rural service, individual, two-party, and four-party, which

rates are 25 cents per month higher than those now in effect and are the same as those in the city. There is retained the same line charge of \$6.00 per annum for each quarter mile or fraction thereof beyond a one-mile radius from the central office, said charges to be borne equally by all subscribers on the line using any such quarter mile of line or fraction thereof in service to, from or through the central office. The rates for rural service are identical with those for city service with the exception that to the rural rates is added the line charge above described. These rates the Commission likewise believes to be reasonable and is of the opinion that they should be approved. Petitioner in the petition in Cause No. 6409 sets out a schedule of rates for special service such as P. B. X. switchboards, P. B. X. stations, P. B. X. intercommunicating systems, extension telephones, extension bells, joint users and listing, etc. The schedule increases the rate for certain services and establishes rates for new services; the rate for extension telephones within the same building being increased from \$1.00 per month to \$1.25 per month for business telephones, the rates for residence extensions being left at 75 cents. In the case of an extension telephone between business and residence of the same subscriber, the business rate plus \$1.00 per month was increased to \$1.25 per month for extension in residence, which includes regular listing; rates were provided for P. B. X. stations. The rate for joint users and listing was increased from \$20.00 a year to \$2.00 a month for business, but was left at \$1.00 per month for residence.

The Commission being fully advised is of the opinion, and finds, that the special rates proposed by petitioner are reasonable and just and should be approved and it will be so ordered, *provided, however*, that the Commission will not make retroactive effective January 1, 1922, those rates not covered by the franchise contract, but will make said rates effective February 1, 1922.

It is, therefore, ordered by the Public Service Commission of Indiana, That the ordinance providing rates for telephone service within the city of Richmond approved by the common council of the city of Richmond on December 19, 1921, be, and it is, approved.

It is further ordered, That the Richmond Home Telephone Company be, and it is, authorized and directed to charge and collect, effective January 1, 1922, the following schedule of rates, tolls and charges which are those agreed to by the city of Richmond as aforesaid:

CITY RATES.

<i>Class of Service:</i>	<i>Per Month</i>
Private line, business.....	\$4 50
Two-party line, business.....	3 50
Four-party line, business.....	3 00
Private line, residence.....	2 25
Two-party line, residence.....	2 00
Four-party line, residence.....	1 75

And to collect, effective February 1, 1922, the following schedules of rates:

RURAL RATES.

<i>Class of Service:</i>	<i>Per Month</i>
Private line, business.....	\$4 50
Two-party line, business.....	3 50
Four-party line, business.....	3 00
Private line, residence.....	2 25
Two-party line, residence.....	2 00
Four-party line, residence.....	1 75

To the above specified rates for special rural service shall be added the sum of \$6.00 per annum, or 50 cents per month, for each one-quarter mile or fraction thereof beyond a one-mile radius from the central office for line charges, said charges to be borne equally by all subscribers on the line using any such quarter mile of line or fraction thereof in service to, from or through the central office.

SPECIAL SERVICES.

<i>Class of Service:</i>	<i>Monthly Rates</i>	
	<i>Business</i>	<i>Residence</i>
Rotary switches, transferring calls.....	\$2 50	.....
Extension telephones, automatic, within same building	1 25	\$0 75
Extension telephones, manual, within same building	1 00	.....
Extension telephones, between business and residence of same subscriber, the business rate plus \$1.25 for extension in residence, which includes regular listing.		
Extension telephones, owned by subscriber (new)	75	50
Extension horns and relays (new).....	1 00	1 00
P.B.X. switchboards, complete, not less than 10 stations	3 00	3 00
P.B.X. stations, no station to exceed 300 feet of wire	1 25	1 00
P.B.X. stations, located long distance from switchboard (special rate).		
P.B.X. stations, restricted service (new).....	1 00	.....
P.B.X. stations, owned by subscriber, restricted service (new)	25	.....
P.B.X. stations, owned by subscriber, not restricted (new)	50	.....
P.B.X. trunks, two-way, automatic.....	5 00	3 00
P.B.X. trunks, toll	4 00	2 25
P.B.X. hotel switchboard, complete, not less than 20 stations	3 00	.....
P.B.X. hotel stations, no station to exceed 300 feet of wire, 25 cents per station, per month, and one-half of revenue received from local outgoing calls		
P.B.X. hotel trunks, two-way, automatic.....	5 00	.....
P.B.X. hotel trunks, toll.....	4 00	.....
Intercommunicating telephone systems, not less than 5 stations, no station to exceed 60 feet of cable	1 25	1 00
Intercommunicating telephone trunks, two-way, automatic	5 00	3 00
Intercommunicating telephone trunks, toll.....	4 00	2 25
Short-term service, regular rate with minimum charge for three months, plus cost of connection and disconnection.		

Class of Service:	Monthly Rates	
	Business	Residence
Telegraph loops, one-cable pair.....	\$4 50	.....
Toll loops	4 00	\$2 00
Joint users and listing.....	2 00	1 00
Private lines not connected with main exchange		
(new)	3 00	.....
Cut-out buttons (new).....	25	.....

It is further ordered, That on or before February 1, 1922, the Richmond Home Telephone Company shall file with the tariff department of this Commission, and shall post and keep posted in its office in full view of the public during the entire period such schedule is in effect, a printed or typewritten copy of such schedule of rates, as required by Sections 41-47 of the Public Service Commission Act.

January 14, 1922.

In re PETITION OF JOHN PRAKEL *et al.* v. BATESVILLE TELEPHONE COMPANY FOR INVESTIGATION AND REDUCTION IN RATES.

No. 6271.

Decided January 21, 1922.

Switching Charges Established.

OPINION AND ORDER.

On October 5, 1921, John Prakel and 18 other patrons of the Batesville Telephone Company filed with the Commission a petition alleging in substance; that the petitioners are the owners of a rural party line locally known as the Southern Batesville Telephone Company; that said line connects with the telephone exchange of the respondent in the city of Batesville, Indiana; that the respondent is charging each of the petitioners a gross rate of \$1.25 per month, or a net rate of \$1.00 per month when payment is made on or before the tenth day of the first month of the quarter in which service is rendered; that said rate is

unreasonable and unjustly discriminatory. The petitioners asked the Commission to investigate said rates, to hold a public hearing and to reduce the rates in question.

After due notice to interested parties a public hearing was held in the city of Batesville on January 3, 1922. The evidence shows that the petitioners constructed the telephone lines in question to the corporate limits of the city of Batesville and that the petitioners paid for the construction of said lines from the corporate limits of said city to the telephone exchange of the respondent. The evidence shows further that the petitioners own and maintain their own instruments and their lines located outside of the corporate limits of the city of Batesville. The service of the respondent therefore consists of maintaining the lines of petitioners located within the corporate limits of the city of Batesville and in switching calls from petitioners' lines to the other lines connecting with respondent's exchange; in other words the service rendered the petitioners by the respondent is what is ordinarily called a switching service.

In its Cause No. 5030 the Commission on April 9, 1920, approved an order authorizing the respondent to make a charge of \$1.75 per month gross and \$1.50 per month net for party line rural residence telephones, payment for service to be made quarterly in advance and the net rate to be charged when the account is paid on or before the tenth day of the first month of the quarter in which service is rendered, otherwise the gross rate to be charged. In that order the Commission also authorized the respondent to pay to patrons who own and maintain their own line and instrument a monthly rental of 25 cents for the use of such line and 25 cents for the use of such instrument. The respondent has applied this rate to the petitioners and has charged the petitioners \$1.00 per month net if the account is paid on or before the tenth day of the first month of the quarter.

It seems apparent that the rent paid by petitioners is

out of proportion to the rent paid by party line rural subscribers on lines owned and maintained by the respondent. and that the schedule authorized by the order above referred to is incomplete in that it does not provide for a switching charge for rural telephone companies, organizations or associations.

The Commission being advised in the premises, is of the opinion, and finds, that the rate now charged petitioners by respondent is unreasonable and unjustly discriminatory; that the schedule of rates of the respondent should be amended to provide for a switching charge for rural telephone companies, organizations or associations and that a reasonable charge for such service is 60 cents per month net for each subscriber.

It is, therefore, ordered by the Public Service Commission of Indiana, That the Batesville Telephone Company be, and it is, authorized and directed on and after March 1, 1922, to charge and collect for switching service for rural telephone companies, organizations or associations owning and maintaining their own instruments and their lines outside the corporate limits of the city of Batesville, Indiana, a net rate of 60 cents per month, per subscriber, or a gross rate of 85 cents per month, per subscriber, the net rate to be charged when the account is paid on or before the tenth day of the first month of the quarter in which service is rendered, otherwise the gross rate to be charged.

It is further ordered, That on or before March 1, 1922, the Batesville Telephone Company shall file with the tariff department of this Commission and shall post and keep posted in its office in full view of the public during the entire period such schedule is in effect, a printed or type-written copy of its authorized schedule of rates as required by Sections 41-47 of the Public Service Commission Act, which schedule, when amended by the addition of a switching charge as above ordered, should read as follows:

SCHEDULE OF THE BATESVILLE TELEPHONE COMPANY.

Class of Service:	Per Month	
	Gross	Net
Individual line, business.....	*\$2 25	*\$2 00
Party line, business.....	1 75	1 50
Individual line, residence.....	*1 75	*1 50
Party line, residence.....	1 50	1 25
Party line, rural residence.....	1 75.	1 50
Switching service for rural telephone companies, organizations or associations which own and maintain their own instruments and lines out- side of the corporate limits of the city of Bates- ville, Indiana, for each subscriber.....	85	60
Extension telephones	65	50
Extension bells	40	25

* Plus a line mileage charge of 25 cents per month for each quarter mile or fraction thereof beyond the corporate limits.

Rates for service within the corporate limits shall be payable monthly in advance. The net rate shall be charged when the account is paid on or before the tenth day of the month in which service is rendered, otherwise the gross rate shall be charged.

Rates for service outside the corporate limits shall be payable quarterly in advance. The net rate shall be charged when the account is paid on or before the tenth day of the first month of the quarter in which service is rendered; otherwise the gross rate will be charged.

To patrons who own and maintain their own line instrument, petitioner shall pay a monthly rental of 25 cents for the use of such line and 25 cents for the use of such instruments, this, however, does not apply to extension instruments.

It is further ordered, That within twenty days from the receipt of this order the Batesville Telephone Company shall pay to the Treasurer of State, through the Secretary of this Commission, the sum of \$52.11, expenses incurred by the Commission in the investigation of this cause as required by Section 74 of the Public Service Commission Act.

January 21, 1922.

In re PETITION OF THE SOUTH RAUB COOPERATIVE TELEPHONE
COMPANY FOR AUTHORITY TO INCREASE RATES.

No. 6362.

Decided January 21, 1922.

Increase in Rates Authorized — Discrimination Against Non-Stockholders Found and Eliminated — Purchase of Telephone Instruments Owned by Non-Stockholders Authorized.

OPINION AND ORDER.

On November 3, 1921, the petitioner filed with the Commission its petition, averring:

That it is a public utility operating a telephone exchange in South Raub and vicinity and that it applies to the Public Service Commission for authority to increase its rates; that it is losing approximately \$30.00 per month in the operation of its plant; that it requests authority to increase its rates to \$1.50 per month for both stockholders and renters, telephones to be furnished new renters by petitioner and stockholders and renters now having their own instruments may sell them to the company for \$5.00 each, payable \$1.00 every six months beginning March 1, 1922; that it requests authority to charge the new rates beginning January 1, 1922, payable two months in advance, and on and after March 1, 1922, the new rates to be payable six months in advance on March 1 and September 1.

After due notice the matter was heard in the superior court room of the court house at Lafayette, Indiana, on January 10, 1922.

The evidence shows that petitioner has 74 subscribers, 42 of whom are stockholders; that petitioner is an incorporated company under the laws of the State of Indiana; that petitioner owns its switchboards and pole lines but does not own its instruments; that petitioner has 36 miles of pole line and 101 miles of wire; that petitioner's present revenue derived from its rate of \$1.00 per month for stockholders and \$1.25 per month for non-stockholders is \$984 a year, to which should be added approximately \$250, which is petitioner's part of the tolls collected, thus making a revenue under present rates of not to exceed \$1,234 per annum.

PETITION OF THE SOUTH RAUB COOPERATIVE TEL. CO. 629

C.L. 123]

The Commission being fully advised finds from the evidence that the following table will fairly reflect petitioner's necessary requirements, making no allowance whatever for return or depreciation:

ESTIMATED ANNUAL OPERATING REQUIREMENTS.

Operating labor	\$600 00
Toll difference	60 00
Taxes, war	18 00
Taxes, local	84 00
Insurance	40 00
Collection expense	70 00
Line labor	360 00
Rent	72 00
Maintenance	250 00
<hr/>	
TOTAL	\$1,554 00

ESTIMATED ANNUAL REVENUES.

Proposed Rates:

Station revenues	\$1,332 00
Toll revenues	250 00
<hr/>	
TOTAL	\$1,582 00

It is obvious that petitioner is in need of additional revenue, otherwise it will face an operating deficit. The proposed rate of \$1.50 per month for all classes of consumers will provide only sufficient revenue actually to operate the company without giving petitioner any return whatever or allowing it to set up a depreciation reserve. Heretofore petitioner has been operating under rates discriminatory as against its non-stockholder patrons who furnish their own instruments the same as the stockholders. The proposed rate will apply equally to both classes and will remove the discrimination heretofore existing. It has been the practice of the petitioner to collect its bills for a period of six months in advance, and it now desires to continue that practice except that the date of billing be changed to March 1 and September 1 instead of at the first and middle of the year. Petitioner desires to buy from its

patrons their telephone instruments for \$5.00 each to be paid to patrons, \$1.00 at each billing.

The Commission being fully advised is of the opinion that petitioner should be authorized to increase its rates as prayed and should be authorized, if it is able, to purchase the instruments not now owned by it upon the terms above outlined. The Commission is not authorized to grant petitioner's prayer for the collection of increased rates until such rates have been on file with the Commission for thirty days.

It is, therefore, ordered by the Public Service Commission of Indiana, That petitioner be, and it is, authorized and directed to charge and collect, effective thirty days after filing with the Commission the following schedule of rates:

<i>Class of Service:</i>	<i>Per Month</i>
For all services	\$1 50

Bills are to be rendered and payable six months in advance, provided, however, new subscribers who discontinue their service prior to the expiration of any six months for which payment has been made shall be entitled to receive a refund of the rate for the full months if any, remaining after such discontinuance, and before the end of the six months' period.

It is further ordered, That on or before February 1, 1922, the South Raub Cooperative Telephone Company shall file with the tariff department of this Commission, and shall post and keep posted in its office in full view of the public during the entire period such schedule is in effect, a printed or typewritten copy of such schedule of rates, as required by Sections 41-47 of the Public Service Commission Act.

January 21, 1922.

KANSAS.

Public Utilities Commission.

***In re* COMPLAINT OF THE WAMEGO TELEPHONE COMPANY
AGAINST THE ROCKY FORD MILLING AND POWER COMPANY
IN THE MATTER OF TRANSMISSION LINE INTERFERENCE.**

Docket No. 4369.

Decided December 9, 1921.

**Violation of Commission's Rule as to Construction Found — Telephone
Lines Ordered Moved at Expense of Transmission Company.**

ORDER.

Now on this ninth day of December, 1921, the above-entitled matter came on for hearing before the Commission, *John M. Kinkel* and *William E. Smith* appearing for the complainant, and *J. D. Humphrey* for the respondent. Thereupon statements were made by counsel for both complainant and respondent, and testimony was introduced in support of and against said complaint; and the Commission having considered all of the testimony introduced, finds that at certain places between the city of Wamego and the city of Belvue, the transmission line of the respondent has been built and constructed on the same side of the road, and directly above the lines of the complainant, and that such construction is in violation of the rules laid down by this Commission for construction of high power transmission lines, is dangerous, and contrary to law, and that such condition should be removed by and at the expense of the respondent transmission company.

The Commission further finds that at this time there is no interference by induction with the lines or service of the complainant, but the Commission also finds that the transmission line has only just been completed, and current turned on for a few days and that sufficient time has not passed in which to fully determine the question of inductive interference.

It is, therefore, by the Commission considered and ordered, That the respondent, the Rocky Ford Milling and Power Company, proceed at once to remove the telephone lines from under their transmission line to the opposite side of the road and to reconstruct said telephone lines with the least possible interference with and interruption of the business on said lines, and to leave said telephone lines so removed and reconstructed in at least as good condition as when said Rocky Ford Milling and Power Company constructed its transmission line. .

The Commission will retain jurisdiction of this matter for the purpose of further consideration and order.

December 9, 1921.

In re APPLICATION OF THE JETMORE TELEPHONE COMPANY
FOR AN INCREASE IN RATES.

Docket No. 4265.

HODGMAN COUNTY INDUSTRIAL CLUB *v.* JETMORE TELEPHONE
COMPANY.

Docket No. 4206.

Decided December 17, 1921.

**Value Determined — Increase in Rates Authorized — Hours of Service
Established.**

OPINION.

The two cases above set out, one being an application of the Jetmore Telephone Company for permission to increase its rates for telephone service and the other being a complaint of certain patrons of the said company, complaining of the service, came on for hearing before the Public Utilities Commission, J. W. Greenleaf sitting, at Jetmore, Kansas, November 22, 1921, at 4:30 p. m.; and since both causes affect the same telephone company and the same facts which would be relevant to one case would have more or less bearing on the other, they were com-

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bined and heard together. The public was represented by *W. S. Kenyon*, attorney, at this hearing and there were various patrons of the telephone company present and these patrons expressed their views in opposition to the granting to this company of an increase in rates at this time, and also very vigorously pressed their complaint against the service now being furnished by the Jetmore Telephone Company. The present rates for telephone service at Jetmore are as follows:

	<i>Per Month</i>
Residence telephone	\$1 00
Business telephone	2 00
Rural party line telephone	1 25
Switching service	35

The above schedule, together with toll charged collect, results in a total operating revenue for the year of \$5,-302.96. This is simply the result of an examination of the books of the company showing the amount of money taken in during the calendar year just past.

During the course of the hearing at Jetmore, Mr. O'Connell, a prominent citizen of Jetmore and one of the leaders in the opposition to the proposed increase in rates, took the stand and during the process of his testimony, testified that allowing reasonable sums for operators' and book-keeper's wages, lineman, auto expense, batteries, stationery and supplies, office rent, taxes, etc., that \$4,884 would be a normal operating expense for this company for a year, and the Commission after a careful consideration of all the evidence, is inclined to think that the figure given by Mr. O'Connell as to expenditures, is a reasonable and fair amount upon which to base rates.

The Commission is of the opinion after hearing the evidence of all parties and making an investigation of the plant, that the fair value of this plant for rate-making purposes is approximately \$10,000, and that a fair rate of depreciation on the said plant is 5 per cent. and a fair rate of return is 7 per cent., which would make the sum of \$1,-200, to which the company is entitled as interest and depre-

ciation on its property. This, added to the sum of \$4,884 which the Commission believes is a reasonable operating expense for the year, shows that the total amount which this property must pay is \$6,084. As hereinbefore stated, the operating revenues of this company at the present rates, amount to \$5,302.96, which amount when deducted from the sum of \$6,084 shows an operating deficit for this company of \$781.04. The Commission is of the opinion that granting the Jetmore Telephone Company the right to publish the following schedule of rates:

	<i>Per Month</i>
Business telephones	\$2 50
Residence telephones	1 50
Rural party line telephones	1 25
Desk sets, extra	25
Extension sets, extra	25
Rural switching service.....	50

will yield an annual increase in revenue sufficient to a little more than balance the deficit above set out; and the Commission is of the opinion that the schedule of rates above set out are the fair and reasonable rates for the Jetmore Telephone Company to charge its patrons.

As to the complaint against the service of this company, it appears that there has been a lack of Sunday service and also a failure to give the proper emergency service at night; and there was further complaint that proper service was not furnished to the rural subscribers early in the morning, and also that there had been failure to furnish batteries to subscribers where the company owned the instrument. The Commission is of the opinion that Sunday service should be furnished the patrons of the Jetmore Telephone Company; that proper emergency service at all times during the twenty-four hours of the day should be furnished and from 7 A. M. to 9 P. M. up to April 1 of the year is a proper time to render service for any and all classes of business and from April 1 to November 1 from 6 A. M. to 9 P. M. is a proper time. The question as to the furnishing of service by this telephone company early in

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the morning to its rural patrons is one of vital importance since if the farmer is to be deprived of the ability to avail himself of telephone service during the early morning hours, a large part of the value to him of telephone service will be gone, as it is common knowledge, and this Commission is fully aware of the fact that the duties of a farmer take him into the field at an early hour, and if he is to speak with his neighboring farmer or with people in town with whom he has business, he must be permitted the use of his telephone at an earlier hour than other business would require.

The Commission is further of the opinion that the schedule of rates set out herein should be put into effect January 1, 1922, and should continue in effect for six months from that date, contingent upon the company's furnishing service as set out in this opinion and with the proviso that if service is not furnished as provided herein, then at the expiration of six months this order shall become null and void and of no effect.

The Commission is further of the opinion that the rendition of adequate telephone service demands that sufficient batteries shall be furnished to patrons for use in their instruments when the company owns the instruments.

An order will issue in compliance with the opinion set out herein.

ORDER.

Now on this seventeenth day of December, 1921, the above-entitled cases came on for order by the Commission upon the application and complaint filed herein and the evidence introduced thereunder; and the Commission, after consideration of such application and complaint and evidence, and being fully advised in the premises, finds as set out in the opinion in these cases, a copy of which is attached hereto and made a part hereof, the same as though fully contained herein.

It is, therefore, by the Commission ordered, That the Jetmore Telephone Company be, and it is hereby, permitted to file and put in effect January 1, 1922, a schedule of rates

for telephone service at its Jetmore, Kansas, exchange, as follows:

	<i>Per Month</i>
Business telephones	\$2 50
Residence telephones	1 50
Rural party line telephones.....	1 25
Desk sets, extra.....	25
Extension sets, extra.....	25
Rural switching service.....	50

It is further by the Commission ordered, That the Jetmore Telephone Company furnish its patrons with all-day Sunday service; that proper emergency service at all time during the twenty-four hours of the day be furnished, and that the hours during which all classes of service be furnished shall be from 7 A. M. to 9 P. M. up to April 1 of the year and after April 1 from 6 A. M. to 9 P. M.

It is further by the Commission ordered, That the schedule of rates set out herein shall be put into effect January 1, 1922, and shall continue in effect for six months from that date, contingent upon the company's furnishing service as set out in the opinion in these cases, a copy of which is attached hereto and made a part hereof, with a proviso that if service is not furnished as provided herein, then at the expiration of six months this order shall become null and void and of no effect.

It is further by the Commission ordered, That sufficient batteries be furnished by the company to its patrons for use in their instruments when the company owns the instruments.

Dated at Topeka, Kansas, December 17, 1921.

In re APPLICATION OF THE BLUE RAPIDS TELEPHONE COMPANY
FOR PERMISSION TO SELL ITS PLANT AND PROPERTY.

Docket No. 4465.

Decided December 23, 1921.

Sale of Property Authorized.

ORDER.

The above-entitled matter comes on this twenty-third day of December, 1921, for final order of the Commission on the application of the Blue Rapids Telephone Company for permission to sell, transfer and convey its properties, rights, franchises, privileges, and assets of every kind and description belonging to it, to C. L. Brown, J. O. Wilson, and Fred Coulson.

The said application was heard on the twenty-second day of December, 1921, and the Commission found that the allegations contained in the application to sell and convey the property, rights, franchises, privileges, and assets of said Blue Rapids Telephone Company to the said C. L. Brown, J. O. Wilson, and Fred Coulson, are true, and that the said C. L. Brown, J. O. Wilson, and Fred Coulson have, as a matter of fact, purchased all of the said property rights, franchises, privileges, and assets; that the said C. L. Brown, J. O. Wilson, and Fred Coulson are able and willing to assume the duties and obligations of said company, and to fully satisfy the patrons of said company in service; and that it is the intention of the purchasers to continue said service of said Blue Rapids Telephone Company to all the patrons thereof, and to extend said service as may be necessary for the convenience of said Blue Rapids and vicinity.

It is, therefore, by the Commission considered and ordered, That said Blue Rapids Telephone Company be, and it is authorized to sell, transfer, and deliver all of its property rights, franchises, privileges, and assets of

every kind and description to the said C. L. Brown, J. O. Wilson, and Fred Coulson.

December 23, 1921.*

In re APPLICATION OF THE PRATT TELEPHONE COMPANY FOR
A CERTIFICATE OF CONVENIENCE AND AUTHORITY TO TRAN-
SACT THE BUSINESS OF A TELEPHONE UTILITY.

Docket No. 4471.

Decided December 23, 1921.

Certificate of Convenience and Necessity Granted.

CERTIFICATE.

Comes now the Pratt Telephone Company, a corporation, on this twenty-third day of December, 1921, and shows the Commission that it is a corporation regularly organized under the laws of the State of Kansas, with an authorized capital stock of \$150,000; that its purpose is to transact a telephone business at and within the city of Pratt, Pratt County, Kansas, and adjoining territory; that to perform said service, it has negotiated for and will purchase and take over the telephone exchange of the Pratt Telephone Exchange, and operate the same.

The Commission further finds that said certificate of convenience and authority should be granted to said Pratt Telephone Company, a corporation.

It is, therefore, by the Commission certified, That the said Pratt Telephone Company, a corporation, be, and it is, granted a certificate of convenience and authority to transact the business of a telephone utility in the State of Kansas, its business being limited to the city of Pratt, and adjoining territory, all in the county of Pratt, State of Kansas.

December 23, 1921.

* On the same day, similar orders were issued in the following cases: *In re Canton Telephone Company* (No. 4466); *In re McPherson Telephone Company* (No. 4467), and *In re Exchange Telephone Company at Smith Center* (No. 4468).

In re ISSUANCE OF STOCK OF THE PRATT TELEPHONE COMPANY.

Docket No. 4473.

Decided December 23, 1921.

Issue of Stock Authorized.

CERTIFICATE.

Comes now, on this twenty-third day of December, 1921, the Pratt Telephone Company, a corporation, and shows the Commission that it is a corporation duly organized, existing and doing business by virtue of the laws of the State of Kansas as a corporation; that its authorized capital is \$150,000; that it has contracted to purchase the property, franchise, and rights, and to assume all the duties and obligations of the Pratt exchange for the sum of \$100,000, said property being of the reasonable value of \$125,000; that by the terms of said contract, the owner of the said Pratt Telephone Exchange has agreed to accept the common stock of the Pratt Telephone Company in the amount of \$100,000 for said property so contracted to be purchased. The Commission finds that the said contract between said parties, and on behalf of the Pratt Telephone Company, is a reasonable one, and that the company should be permitted to issue its common stock in the sum of \$100,000 for said purpose.

It is, therefore, by the Commission certified, That the Pratt Telephone Company, a corporation, be, and it is, authorized to issue its common stock in the sum of \$100,000 for the purpose of purchasing the property, franchise, and rights of the said Pratt Telephone Exchange, said stock to be accepted by said owner of the Pratt telephone exchange at par in the sum of \$100,000 for the property of said exchange.

December 23, 1921.*

* On December 12, 1921, an issue of preferred stock in the amount of \$123,200 was authorized *In re United Telephone Company*.

In re APPLICATION OF THE PRATT TELEPHONE COMPANY FOR
PERMISSION TO PURCHASE CAPITAL STOCK OF THE SOUTHWEST
LONG DISTANCE TELEPHONE AND TELEGRAPH COMPANY.

Docket No. 4474.

Decided December 23, 1921.

Purchase of Stock Authorized.

ORDER.

Comes now on this twenty-third day of December, 1921, the Pratt Telephone Company, a corporation, and represents that the Pratt Telephone Exchange, with which it has contracted to purchase the property, franchise, and all rights of said Pratt Telephone Exchange, is the owner of \$10,800 of the capital stock of the Southwest Long Distance Telephone and Telegraph Company; and by the terms of its contract with said Pratt Telephone Exchange, it has agreed to take over as a part of the assets of said telephone exchange, the said \$10,800 of capital stock of said Southwest Long Distance Telephone and Telegraph Company. And it appearing that the stock of the said Southwest Long Distance Telephone and Telegraph Company is worth its face or par value, that the contract price therefor is \$10,000 and that the said Pratt Telephone Company has direct connection with said company, and is in position to guard and protect its interest therein, the Commission finds that it should be permitted to purchase said stock as a part of its contract to purchase said Pratt exchange.

It is, therefore, by the Commission ordered, That the said Pratt Telephone Company be, and it is, authorized to purchase the stock of the Southwest Long Distance Telephone and Telegraph Company now owned by the Pratt Telephone Exchange, in the amount of \$10,800 for the sum of \$10,000 to be paid for in common stock of said Pratt Telephone Company at par, and that in addition to the \$100,000 authorized under Docket No. 4473, the said Pratt*

* See *supra*, page 639.

In re APPLICATION OF THE GRIDLEY TELEPHONE Co. 641
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Telephone Company be authorized to issue its common stock in the sum of \$10,000, said issue of stock making the aggregate issue of stock of said company in the sum of \$110,000.

December 23, 1921.

In re APPLICATION OF THE GRIDLEY TELEPHONE COMPANY FOR
PERMISSION TO FILE AND ENFORCE AN AMENDED SCHEDULE OF RATES.

Docket No. 4231.

Decided December 24, 1921.

Increase in Rates Authorized.

ORDER.

This matter came on for hearing before the Public Utilities Commission of the State of Kansas; J. W. Greenleaf sitting, in Gridley, Kansas, on December 13, 1921, and the Commission, having heard the evidence introduced and after full and complete investigation, and being fully advised in the premises, finds that the present rates for telephone service being furnished by the Gridley Telephone Company at Gridley, Kansas, are inadequate and non-compensatory. The Commission further finds that the following is a fair and reasonable schedule of rates to be charged for telephone service at Gridley, Kansas:

	<i>Per Month</i>
Individual line, business telephone.....	\$2 00
Individual line, residence telephone.....	1 50
Party line, residence telephone.....	1 25
Extension sets, extra, business.....	75
Extension bells, large.....	50
Extension bells, small.....	25
Desk set, extra.....	25
Rural business telephones.....	2 00
Rural residence telephones.....	1 25
Rural switching service.....	50

It is, therefore, by the Commission ordered, That the Gridley Telephone Company be, and it is hereby, authorized to file and put in effect January 1, 1922, a schedule of rates for telephone service at its Gridley, Kansas, exchange, as follows:

	<i>Per Month</i>
Individual line, business telephone.....	\$2 00
Individual line, residence telephone.....	1 50
Party line, residence telephone.....	1 25
Extension sets, extra, business.....	75
Extension bells, large.....	50
Extension bells, small.....	25
Desk sets, extra.....	25
Rural business telephones.....	2 00
Rural residence telephones.....	1 25
Rural switching service.....	50

Dated at Topeka, Kansas, December 24, 1921.*

In re APPLICATION OF THE PLEASANTON TELEPHONE COMPANY FOR A CERTIFICATE RELATING TO A PROPOSED ISSUE OF STOCK.

Docket No. 4390.

Decided December 29, 1921.

Issue of Preferred Stock Authorized — Issue of Common Stock Denied.

CERTIFICATE.

This matter came on for hearing on the twenty-ninth day of December, 1921, upon which date testimony was introduced in support of the application, and the matter was taken under advisement.

* Increased rates were authorized in the following cases: *Farmers Mutual Telephone Company* at Osawatomie (Docket No. 4108), December 13, 1921; *Farmers Mutual Switchboard Association* at Durham (Docket No. 4203), December 24, 1921; *Hanston Telephone Company* (Docket No. 3966), December 24, 1921.

Application now comes on for final determination and order on this third day of January, 1922; and after having considered the testimony, the Commission finds that the said Pleasanton Telephone Company has outstanding obligation for additions and betterments recently made to their exchange in a sum that will justify the issuance of their preferred stock in the sum of \$8,800, said stock to be non-voting, and the company retaining the right to retire same at any time at \$1.02 per dollar of face value; that said stock is to be sold at par, and the proceeds thereof to be applied as follows:

\$2,500 of 6 per cent. preferred stock to pay on building in which the business of the company is located.

\$6,300 of 7 per cent. preferred stock, of which \$500 is to finish payment on the purchase price of the telephone building; \$700 for repairs and improvements on the telephone building; \$1,350 for the purchase from the Southwestern Bell Telephone Company of toll lines to Mound City and Blue Mound, Kansas, and to Hume, Missouri; \$250 for the purchase of ground for use as a pole yard; \$1,200 to pay for extensions of exchange lines to coal mines; \$2,300 to refund the unpaid portion of bond issue made in December, 1912, and coming due December, 1922.

The Commission further finds that the application to issue \$5,000 common stock to reimburse the treasury of the company for original purchase of property over and above the agreed price provided in the contract for the purchase thereof should be denied for the reason that said difference of purchase price many years ago is not capable of capitalization at this time.

It is, therefore, by the Commission considered and certified, That the said Pleasanton Telephone Company be, and it is, authorized to issue its preferred stock in the sum of \$8,800 for the purposes provided in its amended application filed on the twenty-ninth day of December, 1921, and as set out hereinbefore.

December 29, 1921.

***In re* APPLICATION OF THE GALENA HOME TELEPHONE COMPANY FOR PERMISSION TO FILE AND PUT IN EFFECT A NEW SCHEDULE OF RATES.**

Docket No. 3697.

Decided January 6, 1922.

Order Fixing Rates Amended.

SUPPLEMENTAL ORDER.

Now on this sixth day of January, 1922, this case comes on for consideration by the Commission; and the Commission, being fully advised in the premises, finds that through oversight at the time the amended order* issued on the twenty-eighth day of August, 1921, by the Commission, was written, the rate for four-party business telephones at the Columbus, Kansas, exchange was not changed, whereas it was the intention of the Commission that said rate should be changed from \$1.00 per month to \$1.50 per month,

It is, therefore, by the Commission ordered, That the Galena Home Telephone Company be permitted to file and put into effect, beginning the first day of February, 1922, a rate for four-party business telephones of \$1.50 per month, at its Columbus exchange.

January 6, 1922.

* See Commission Leaflet No. 119, p. 1091.

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E. H. FULLER, CAPTAIN SIGNAL CORPS. v. PEOPLES HOME
TELEPHONE COMPANY.

Docket No. 3713.

Decided January 20, 1922.

**Switching Rate Charged United States Government Held Discriminatory
and Reduced.**

ORDER.

Now on this twentieth day of January, 1922, this matter comes on for order by the Commission upon the pleadings filed herein and the evidence introduced before the Court of Industrial Relations at its hearing held on the thirteenth day of December, 1920, and the Commission, after consideration of such pleadings and evidence, and being fully advised in the premises, finds that the respondent company and its successor, The Southwestern Bell Telephone Company, have been and are now furnishing trunk line switching service between the city of Leavenworth and the exchange owned by the United States Government at Fort Leavenworth, Kansas, and that the rate now charged for such service is 75 cents per station, per month, business or residence, and that the same charge is made for extensions.

The Commission further finds that all of the instruments, central office equipment and distribution equipment used in the furnishing of such service are owned by the United States Government, with the exception of certain trunk lines extending from the city limits of Leavenworth to the switchboard of the respondent company at Leavenworth, and that the trunk lines connecting the said exchange at Fort Leavenworth with the exchange of the respondent at Leavenworth are owned by the United States Government to the city limits of Leavenworth.

The Commission further finds that the respondent is furnishing similar service to local exchanges owned by independent companies in the towns of Lansing, Boling, Kickapoo and Easton, Kansas, and that the rate for such

service has for some time been 25 cents per subscriber, per month, but that the Court of Industrial Relations has authorized the respondent to charge for such service 75 cents per month for business stations and 50 cents per month for residence stations, no rate being on file for extension sets.

The Commission further finds that in the furnishing of such service to the inhabitants of Lansing, Boling, Kickapoo and Easton, Kansas, the respondent owns and maintains all of the trunk lines connecting such exchanges with the Leavenworth exchange, and to that extent furnishes such exchanges and its subscribers more service than is furnished to the United States Government and the subscribers on its exchange at Fort Leavenworth, Kansas.

In view of the facts above stated, and particularly in view of the fact that the respondent is furnishing more extensive service to the exchanges at Lansing, Boling, Kickapoo and Easton, Kansas, and their subscribers for a less rate than that charged to the United States Government and its subscribers at Fort Leavenworth, the Commission finds that the rates now charged by the respondent to the United States Government and the subscribers of its exchange at Fort Leavenworth, Kansas, are unreasonably high and unjustly discriminatory against the United States Government and its subscribers at Fort Leavenworth, Kansas, and should be set aside.

The Commission further finds that the rates hereinafter set forth are just and reasonable rates to be charged by the respondent to the United States Government and its subscribers at Fort Leavenworth, Kansas.

The Commission takes judicial notice of the fact that since the filing of this complaint The Southwestern Bell Telephone Company has, by order of this Commission, taken over the property of the Peoples Home Telephone Company at Leavenworth, Kansas, and is now operating such exchange.

It is, therefore, by the Commission ordered, That the Peoples Home Telephone Company and its successor The

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Southwestern Bell Telephone Company, within thirty days from the date of this order, file and put into effect a new schedule of rates for trunk line switching service between the city of Leavenworth and the exchange of the United States Government at Fort Leavenworth, Kansas, cancelling all rates now in effect, and establishing the following rates:

	<i>Per Month</i>
Business stations	\$0 75
Residence stations	50
Business extensions	75
Residence extensions	No charge

provided, however, that residence extensions shall be switched without extra charge only when such extensions are in the same building as the main station and are used by the same individuals or families as the main station; it being the intent of this order that each residence subscriber shall be charged for the use of the service furnished to him by the respondent, but shall not be charged extra for extension sets except where such extensions are for the use of other individuals or families.

January 20, 1922.*

* Increased switching charges were authorized *In re Farmers Union Telephone Company* at Byers and Iuka (Docket No. 4062), December 19, 1921, and *In re Ontario Mutual Telephone Company* (Docket No. 4023), December 30, 1921. The latter company was also authorized to change its place of business from Ontario to Circleville.

MICHIGAN.

Public Utilities Commission.

In re APPLICATION OF THE PROVEMONT TELEPHONE COMPANY
FOR AUTHORITY TO INCREASE RATES AND CHARGES.

T-184.

Decided December 23, 1921.

Increase in Rates Authorized.

ORDER.

Application having been made by the above-named telephone company for leave to increase its rates, rentals and charges, and the same having been brought on to be heard and it appearing that due notice of the intention of applicant to apply for said increase was made to all persons interested, by publication of said notice in the Suttons Bay Currier, a newspaper of general circulation in the territory served by the telephone lines and facilities of said applicant, and it appearing that said rates, rentals and charges are justified,

Therefore, it is hereby ordered by the Michigan Public Utilities Commission, That applicant be, and it is hereby, authorized and empowered to charge to and collect from its subscribers, rates, rentals and charges as follows:

	<i>Per Annum</i>
Switching telephones	\$6 00
Rural telephone and switching service where lines are owned by other parties.....	9 00
Business telephones	15 00

The rates, rentals and charges shall be collectable in the same manner as at the present time. The rates above provided are based upon the rendition of reasonably adequate telephone service, and if applicant shall neglect, fail,

or refuse to render such service, then the Commission reserves the right to reduce said rates either with or without notice.

This order shall be effective January 1, 1922.

December 23, 1921.*

In re APPLICATION OF THE CENTRAL UNION TELEPHONE COMPANY AND THE MICHIGAN STATE TELEPHONE COMPANY FOR AUTHORITY FOR THE FORMER TO SELL AND THE LATTER TO BUY CERTAIN TELEPHONE PROPERTY IN MICHIGAN.

T-371.

Decided December 23, 1921.

Sale and Purchase of Property Authorized.

ORDER.

Joint application having been made by the Central Union Telephone Company and the Michigan State Telephone Company for authority by the former to sell and the latter to buy certain telephone property for the sum of \$5,000, and the same having been brought on to be heard, and it appearing that said sale and purchase is in the interest of public convenience and necessity, and that the property involved is worth at least the sum of \$5,000,

Therefore, it is hereby ordered by the Michigan Public Utilities Commission, That the Central Union Telephone Company is hereby given authority to sell, and the Michigan State Telephone Company is hereby given permission

* On December 9, 1921, an increase in rate for telephone desk sets to \$1.25 per quarter was authorized *In re Central Michigan Telephone Company* (T-122).

to buy for the sum of \$5,000, the telephone property described in the contract of sale as follows:

A telephone pole line consisting of 629, 30-ft. poles with 10 pin cross-arms and fixtures attached thereto, and carrying two No. 101 copper metallic circuits and one No. 148 iron metallic circuit, beginning at the Indiana-Michigan State line at a point about 5 miles northeast of South Bend, Indiana, and extending northward and eastward to the city of Cassopolis, Cass County, Michigan.

A telephone pole line consisting of 100, 25-ft. poles with 10 pin cross-arms and fixtures attached thereto, and carrying two No. 101 copper metallic circuits, beginning at a point east of the town of Granger, Indiana, and extending in a northerly direction to the town of Edwardsburg, Cass County, Michigan.

Exchange pole lines and circuits located in the vicinity of the cities of Niles and Buchanan, Berrien County, Michigan, as follows:

One hundred and seventy, 25-ft. poles with 6 pin cross-arms attached.

Nine hundred and seven, 20-ft. poles with brackets attached and carrying a total of 38 circuit miles of No. 109 iron metallic circuit, and including 43 drops and station wiring.

Forty No. 317-BS subscriber's sets with No. 22-E generators and No. 21-D condensers.

It is the intention of the grantor to convey by this bill of sale all of the property now owned by it, lying within the State of Michigan.

The Michigan State Telephone Company, upon acquiring the property above mentioned and described, shall continue to render the same telephone service both local and long distance that it renders at the present time, until the further order of the Commission.

December 23, 1921.

In re APPLICATION OF ALBERT E. STEVENSON *et al.* AND THE
SMITH CREEK TELEPHONE COMPANY FOR AUTHORITY TO
INCORPORATE THE SMITH CREEK TELEPHONE COMPANY
AND TO ISSUE CAPITAL STOCK.

D-1683.

In re APPLICATION OF ALBERT E. STEVENSON *et al.* AND THE
SMITH CREEK TELEPHONE COMPANY PRAYING FOR A
CERTIFICATE OF CONVENIENCE AND NECESSITY FOR THE
CONSTRUCTION OF A TELEPHONE SYSTEM, AND FOR THE
FIXING OF RATES FOR SERVICE.

T-372.

Decided January 5, 1922.

**Permission to Incorporate Granted — Issue and Sale of Stock Author-
ized — Rates Established.**

OPINION AND ORDER.

In these matters applications were filed as above stated on December 8, 1921, and December 9, 1921, respectively, said applications being signed by Albert E. Stevenson, Fred P. Wilson and Arthur H. Fish and numerous other persons on behalf of themselves and the Smith Creek Telephone Company, which corporation said persons are organizing, said application first above entitled praying that they be granted authority to incorporate a corporation to be known as the Smith Creek Telephone Company, and that said corporation be granted authority to file its articles of incorporation in the office of the Secretary of State and in the office of the county clerk of St. Clair County, and that said corporation be authorized to issue and sell its common capital stock in the sum of \$10,000, said capital stock to be divided into 1,000 shares of the par value of \$10.00 each, the said application showing that 750 shares of said stock have been subscribed, and that \$5,000 has been paid in, in cash, and \$2,500 in property, said corporation to be organized under the provisions of Act No. 129 of the Public Acts of Michigan for the year 1883, as

amended and now in force, the capital stock of said corporation to be sold at not less than par and the proceeds applied to the procurement of telephone equipment and facilities for the purpose of supplying telephone service in the townships of Kimball, Columbus, St. Clair and Wales, St. Clair County, Michigan, and vicinity.

And the application secondly above entitled praying that a certificate of convenience and necessity be granted to the said telephone company permitting it to occupy the said townships of Kimball, Columbus, St. Clair and Wales, St. Clair County, Michigan, and vicinity, for the purpose of furnishing telephone service; and that the rates, rentals, tolls and charges to be charged to and collected from the public to be served be fixed by this Commission;

And both of said matters having been duly set to be heard on December 22, 1921, and the Commission having examined both of said applications and all documents and papers accompanying the same, and having taken orally at said hearing the testimony of Albert E. Stevenson, and having concluded that said two matters should be combined and one order made covering all the matters mentioned in both applications;

And having duly considered all matters arising in connection with both of said applications and being duly advised in the premises, the Commission finds:

(a) That the said corporation, the Smith Creek Telephone Company, is being organized by Albert E. Stevenson, Fred P. Wilson, Arthur H. Fish, Henry Neal, Harry Neal, Edward Leaturneo, Fred M. Wilson, William H. Searles, John A. Neal, George H. Neal, George Lambert, John Terney, Edward Bennett, Wellington G. London, Joseph Neal, Jr., George G. Fish, Herman Gracy, Elmer Bowie, Paul E. Hunter, Elmer Hart, William Kelly, Joseph Frith, Dr. Clinton J. Valentine, John Sturdevant and Charles W. Stevenson under the provisions of Act No. 129 of the Public Acts of Michigan for the year 1883, as amended and now in force, for the purpose of purchasing, maintaining and operating a telephone plant, equipment

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and facilities in the townships of Kimball, Columbus, St. Clair and Wales, St. Clair County, Michigan, and vicinity, together with all of the rights incident thereto;

(b) That it is compatible with the public interest that the said Smith Creek Telephone Company should be granted a certificate of convenience and necessity authorizing it to supply the townships of Kimball, Columbus, St. Clair and Wales, St. Clair County, Michigan, and vicinity, with a telephone plant, telephone equipment and telephone facilities to be owned and operated by the said Smith Creek Telephone Company, said corporation in the operation and extension of its plant and facilities not to improperly interfere with the territory of any existing telephone property; that notices of the application of said persons for a certificate of convenience and necessity covering the territory mentioned herein were on December 12, 1921, sent to Thomas Wellman, attorney, Port Huron, Michigan; A. E. Fuller, secretary, Richmond Telephone Company, Richmond, Michigan; C. C. Peck, manager, St. Clair Central Telephone Company, Port Huron, Michigan; G. M. Welch, general manager, Michigan State Telephone Company, Detroit, Michigan, and James H. Haviland, Columbus, Michigan, and that no objections to the granting of a certificate of convenience and necessity to the Smith Creek Telephone Company have been received, and that it appears that there is room for the telephone company now being organized to operate without interfering with any of the other telephone utilities operating in that section of the State;

(c) That the rates, rentals, tolls and charges to be charged to and collected from the public are just and reasonable for the service to be performed, and that the rates hereinafter ordered and fixed in this order are just and reasonable to be paid for reasonably adequate telephone service, said rates to be paid by each and every person being given telephone service whether such person be a stockholder in the said telephone company or not;

(d) That the Smith Creek Telephone Company has paid into the Treasury of the State of Michigan the sum of \$50.00, being the fee required to be paid to the State under the provisions of Section 11 of Act No. 419 of the Public Acts of Michigan for the year 1919, and has filed the receipt of the State Treasurer therefor in the office of this Commission.

Now, therefore, by virtue of the authority vested in this Commission by the provisions of Act No. 144 of the Public Acts of Michigan for the year 1909, as amended and now in force, and of Act No. 206 of the Public Acts of Michigan for the year 1913, as amended and now in force, and of Act No. 419 of the Public Acts of Michigan for the year 1919,

It is hereby ordered:

1. That the articles of association and incorporation executed by Albert E. Stevenson, Fred P. Wilson, Arthur H. Fish, Henry Neal, Harry Neal, Edward Leaturneo, Fred M. Wilson, William H. Searles, John A. Neal, George H. Neal, George Lambert, John Terney, Edward Bennett, Wellington G. London, Joseph Neal, Jr., George G. Fish, Herman Gracy, Elmer Bowie, Paul E. Hunter, Elmer Hart, William Kelly, Joseph Frith, Dr. Clinton J. Valentine, John Sturdevant, and Charles W. Stevenson, incorporating the Smith Creek Telephone Company under the provisions of Act No. 129 of the Public Acts of Michigan for the year 1883, as amended and now in force, are hereby approved by the Commission, and the filing of said articles of association and incorporation in the office of the Secretary of State and in the office of the clerk of St. Clair County is hereby authorized;

2. That the said corporation, as appears by the record in this case, has taken over certain property in payment of capital stock, and that it appears that the same has been actually transferred to the corporation, and that said property is of the value of \$2,500; and said corporation is hereby authorized to issue to the persons contributing said prop-

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erty, the capital stock of said corporation in the par amount of \$2,500 in full payment for said property, said stock not to be issued, however, until a properly executed bill of sale has been executed and delivered to the Smith Creek Telephone Company conveying all of said property to it;

3. That the said Smith Creek Telephone Company, a corporation, upon the filing of its articles of association and incorporation in the office of the Secretary of State and in the office of the clerk of St. Clair County, is hereby authorized and empowered to issue, sell and deliver its capital stock in addition to the \$2,500 mentioned in the last preceding paragraph in the total sum of \$7,500, said \$7,500 of stock to be sold at not less than par, net, to the corporation, and for cash only, all the proceeds of the said stock to be used for the purpose of providing a telephone plant and telephone equipment and facilities to serve the public in the said townships of Kimball, Columbus, St. Clair and Wales, St. Clair County, Michigan, and vicinity;

4. That a certificate of convenience and necessity is hereby granted to the Smith Creek Telephone Company, a corporation, and said corporation is hereby given the right and authority to purchase, take over, construct, maintain and operate telephone facilities and equipment in the said townships of Kimball, Columbus, St. Clair and Wales, St. Clair County, Michigan, and vicinity; said corporation not to interfere with the lines and facilities of other telephone corporations or utilities now operating in said vicinity, or to interfere in any manner with any other telephone company or with any territory naturally tributary to any other telephone company;

5. That the said Smith Creek Telephone Company is hereby authorized and empowered to charge to and collect from each and all of its subscribers served at and through its exchange the following rates, rentals, tolls and charges, effective as soon as it begins to operate its telephone plant, that is to say:

SCHEDULE OF RATES, RENTALS, TOLLS AND CHARGES.

<i>Business Telephones:</i>	<i>Per Year</i>
Independent lines	\$26 00
Two-party lines	24 00
Four-party lines	20 00
 <i>Residence Telephones:</i>	 <i>Per Year</i>
Independent lines	\$20 00
Two-party lines	18 00
Four-party lines	16 00
 <i>Rural Telephones:</i>	 <i>Per Year</i>
Business, farm, within 6 miles of exchange office.....	\$22 00
Business, farm, more than 6 miles from exchange office....	24 00
Residence, farm, within 6 miles of exchange office.....	18 00
Residence, farm, more than 6 miles from exchange office..	20 00

The said rates are net upon condition that the payment thereof be made quarterly in advance. If not paid before the end of the first month of each quarter, then the said telephone company is authorized to impose an extra charge of 10 per centum;

6. The rates, rentals, tolls and charges above provided for and prescribed shall continue to be the lawful rates, rentals, tolls and charges of said telephone company until changed by this Commission;

7. Immediately upon receipt by said telephone company of this order, or a certified copy thereof, it shall file with this Commission its schedule of rates, rentals, tolls and charges in accordance with the terms of this order, and shall keep on file and accessible to the public, in the principal place of business of said telephone company, said schedule of rates, rentals, tolls and charges;

8. The rates, rentals, tolls and charges above prescribed shall, as stated heretofore, be payable quarterly in advance and not otherwise, and said telephone company is authorized and empowered and directed to disconnect the telephone and to refuse to give telephone service to any and all subscribers who are delinquent in the payment of tele-

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phone rates, rentals, tolls and charges for a period of three months;

9. That said Smith Creek Telephone Company shall on or before April 1, 1922, file a report with this Commission, verified under oath by at least one of its responsible officers having knowledge of the facts, showing the amount of capital stock then issued by virtue of the authority contained in this order and the consideration received upon the issuance and sale of said stock; and shall make a like report at the end of every three months' period succeeding said last mentioned date until the entire capital stock herein authorized has been issued and the proceeds received therefrom applied to the purposes contemplated by this order;

10. That said Smith Creek Telephone Company, a corporation, shall cause a certified copy of this order to be entered at length upon its corporate minutes as a condition precedent to the issue and sale of any of the capital stock herein authorized;

11. The Commission hereby specifically retains and reserves to itself jurisdiction of this matter, and the right to make any further order or orders herein which in its judgment should be hereafter made.

January 5, 1922.

MINNESOTA.

Railroad and Warehouse Commission.

In re INVESTIGATION OF ALL RATES, TOLLS, CHARGES, RULES
AND REGULATIONS OF THE NORTHWESTERN BELL TELE-
PHONE COMPANY.

Decided January 20, 1922.

**Value Determined—Allowances Made for Organization Expenses,
Working Capital and Going Concern in Ascertaining Value—
Average Prices for Period of Years Used in Applying Repro-
duction Cost New Method of Arriving at Value—Held
Unfair to Company to Entirely Ignore Period of High
Prices in Ascertaining Value—Use of Life Tables
in Conjunction with Inspection Method Pre-
ferred to Use of Inspection Method Alone
in Determining Depreciated Value.**

VALUATION ORDER.

The above-entitled proceeding had its inception in a Resolution of the State Senate adopted during the session of 1917, in which this Commission was directed to make a valuation of the toll properties of the company in the State of Minnesota. As soon as funds were available the Commission proceeded to carry out those instructions. Crews were put into the field and a detailed inventory made of all of the property of the Northwestern company devoted to toll use.

The Northwestern Telephone Exchange Company was absorbed by the Northwestern Bell Telephone Company on January 1, 1921. When the Northwestern company is mentioned in this order it therefore refers to whichever company was operating the property at the time. The Northwestern company made independent inventories of both its toll and exchange properties. The inventory of exchange property made by the company was filed with the Commission and then carefully checked. It was found to be substantially accurate and to contain no property not

actually owned by the company. The inventories of the toll properties were found to be so nearly alike as to quantity, that the one prepared by the Commission's engineer was accepted in that respect by the company. There is therefore no conflict in this proceeding as to the quantities of property to be included in this valuation.

The matter of ascertaining the proportion of the total amount of telephone property owned and used by the Northwestern company in the State of Minnesota, which is employed in its intrastate business was carefully considered and a plan worked out and adopted. This plan, which was based upon the use to which the property is put, has been followed by the engineers both of the Commission and of the company; and, by following it the Commission has been able to make a reasonable apportionment as between the property used, respectively, for intrastate and interstate purposes. A similar plan was worked out and adopted by which the value of the property used for toll purposes and the several local exchanges was separately ascertained.

The engineering department and the statistical department of the Commission also made an investigation of the books of the company to ascertain the actual costs of construction of the property to the company. A complete analysis of the capital, plant and depreciation accounts of the company was also made by the statistical department. The results of such investigations and analyses were submitted in evidence.

It was originally intended to have the valuation completed by December 31, 1918. Unforeseen circumstances rendered that impossible. Early in the year 1918 an application was made to the Commission by the Northwestern company and the Tri-State Telephone and Telegraph Company for authority to the former to purchase all of the property of the latter in the city of Minneapolis, and also in the State north of a line drawn east and west across the State, and for authority to the latter to purchase substantially all of the property of the former in the city of St. Paul and also in the State south of said line. This applica-

tion was supported by civic associations of the Twin Cities and of many other municipalities in the State. It was granted.* This division of territory and exchange of properties required a re-draft of the work already accomplished without, however, necessitating any additional field work.

On August 1, 1918, the Federal Government took possession and assumed control of the property in question, and continued in such possession and control until August 1, 1919. During a considerable part of said period the Postmaster General refused to allow the company to continue with the valuation work during said period. A general advance was made in both exchange and toll rates upon order of the Postmaster General. This increase in exchange rates was primarily responsible for enlarging the scope of the valuation as originally commenced, by including therein the exchange as well as the toll property.

Two very exhaustive and painstaking appraisals of the company's property have been submitted to the Commission; one of them prepared by the company's engineers and the other prepared by the Commission's engineer, Mr. D. F. Jurgensen. Both are based upon the so-called reproduction method. In both of them, because of the circumstances above-mentioned, the method was applied to the property in the plant on December 31, 1918, the valuation being brought down to December 31, 1920, by adding thereto the net additions actually made at the prices actually paid during said two-year period.

In applying the reproduction method however, there is a very considerable difference in the values obtained, because of a fundamental difference in the manner of computing the unit prices which were applied. In general, it may be said that the company's engineers used the actual labor and material prices prevailing during the year 1918 in building up their unit prices. Mr. Jurgensen, in general, used an average of the prices prevailing during the eight-year period of 1911 to 1918, inclusive. There were certain exceptions in both cases.

* See Commission Leaflet No. 78, p. 1490.

Applying the methods as outlined above the company's engineer found that the cost of reproducing new the physical property of the company in the State of Minnesota, both toll and exchange, aggregated \$35,413,631.68, while Mr. Jurgensen found it to be \$29,223,212.61. Both of those sums include allowances for omissions, supply expense, plant supervision and tool expense, general expense and engineering and interest during construction. They both also include the sum of \$5,818,879, as the actual cost of net additions to property from January 1, 1919, to December 31, 1920. There was no dispute as to this item.

It will be seen from the foregoing that the main reason for the large difference in the total values above-mentioned is to be found in the methods adopted for obtaining unit prices. In a condemnation case there might be some reasons for using prices prevailing at a particular date, but there would seem to be little justification for using them in obtaining a value to be used as a rate base. There should be some degree of permanence in the latter. If prices prevailing on a particular day, or even during a particular year, are used, it is clear that the usefulness of the value obtained thereby would cease in the following year, if such prices changed. This fact is particularly noticeable in the instant case. The prices in effect on December 31, 1920, differ greatly from those prevailing during the year 1918.

In order to arrive at a value which will not only be fair to the owners of the property, but will possess a certain degree of stability and be useful for a reasonable period thereafter, it has been the general practice to use an average of prices prevailing during a period of years, in applying the reproduction method. This is as necessary for the protection of the owners during periods of severe price recessions as it is for the protection of the public during periods when prices are abnormally increased.

It appears from the testimony and is also a matter of common knowledge that prices, both of labor and materials, commenced to rise in the year 1914, at the beginning of the World War, and continued to increase until the

peak was reached in 1920, after which there has been a decline in some prices. Generally speaking, a valuation based upon the prices prevailing during any particular year, from 1914 to 1920, would thus be in excess of what might be termed the normal value prevailing prior to 1914, and would also differ from the values obtained by using prices prevailing during any other year of said period. There was testimony offered by the company's witnesses that the valuation submitted by them, if based on prices prevailing on September 30, 1921, would have been increased approximately 20 per cent.

We believe that there is ample justification, if not indeed a necessity, for using an average of prices prevailing over a period of years in obtaining price units to be used in applying the reproduction method. We also believe that the necessity for so doing is more compelling during periods of abnormal price fluctuations, such as we are now emerging from than during normal times.

While the cost of reproduction is useful and important to be taken into consideration in determining fair value, it is only useful and important when it is reasonably applied, as was pointed out in the *Minnesota Rate Cases*, 230 U. S. 352. That the employing of price units based upon abnormal prices prevailing at a particular time is not a reasonable application of the method, was impressively stated by Justice Hughes while acting as referee in the *Brooklyn Borough Gas Case*, P.U.R. 1918-F, 336. He said therein:

"While it is important to consider the cost of reproduction in determining the fair value of a plant for rate-making purposes, it cannot be said that there is a constitutional right to have the rates of a public service corporation based upon the estimated cost of the reproduction of its property at a particular time regardless of circumstances."

While it would no doubt be unfair to the public to base price units entirely upon war prices, where, as here, the greater part of the property was constructed prior to the war, it would also be unfair to the company to entirely ignore the prices existing over such a considerable period

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of time in making the valuation. Mr. Jurgensen has not ignored them. We believe that his application of the reproduction method is about as fair a one, both to the public and to the company, as could be devised under the existing abnormal conditions. In a few minor instances, where he departed from the strict application of his theory and used actual cost figures, notably in the case of buildings and central office equipment, the results obtained are scarcely sufficient to represent the fair value thereof. It also appears from the evidence that sufficient credit was not given by him to all the items of right-of-way.

As to the results obtained by the application of his method, it is to be noted that after a careful checking of the same, Mr. Woodford, the company's engineer, testified as follows:

"If I had valued this property on the same theory he (Mr. Jurgensen) used, I would have arrived at substantially the same results."

Mr. Jurgensen made substantially the same statement as to the company's valuation.

The company's witnesses and Mr. Jurgensen differ somewhat as to the amount which should be deducted from the cost new of the physical property because of accrued depreciation. The company's witnesses claim that the accrued depreciation amounts to 11.8 per cent.; Mr. Jurgensen claims it to be 14.3 per cent. By the application of these percentages to their cost new figures, the cost new, less depreciation, of the physical property is claimed by the company's witnesses to be \$31,249,568.61, and by Mr. Jurgensen to be \$25,052,144.49.

This divergence in percentages arises through the difference in methods used to ascertain the same. The company's witnesses ascertained the percentage used by them through the use of the inspection method, that is to say, by actual inspection of many of the various items of physical property and a determination from such inspection of the percentage of depreciation existing therein. Mr. Jurgensen used the inspection method in conjunction with life

tables. His life tables were prepared from records disclosing the actual life history of large numbers of similar items. In view of the fact that an actual inspection is made of but a comparatively small part of the property, that much actual depreciation is not apparent upon mere inspection, and that the judgment of the inspector must therefore be based upon incomplete knowledge, we are of the opinion that more accurate and reliable results can be obtained from the use of life tables, in conjunction with the inspection method, than by the use of the inspection method alone.

The only other difference of opinion between the company's witnesses and Mr. Jurgensen on the reproduction cost concerns the items of organization expenses, working capital and going concern value. The amounts which they respectively claim should be included for these items are as follows:

	<i>Company</i>	<i>Mr. Jurgensen</i>
Organization expenses	\$1,852,000 00	\$759,525 00
Working capital	1,118,000 00	743,958 11
Going concern value.....	3,216,133 00	2,458,135 66

The differences in the amounts of these items are entirely due to the differences in the methods or theories upon which the computations are made. The methods and theories used by both are recognized and employed by public regulatory bodies and by utility experts. They have all been of aid to the Commission in determining the final value.

The grand totals of the values of the tangible and intangible items entering into the two appraisals and covering all of the property of the company in the State of Minnesota as appraised by the company's witnesses were \$37,435,701.61, and by Mr. Jurgensen, \$29,013,763.26. These represent the cost of reproduction new, depreciated, of the entire property, both tangible and intangible, of the company in the State of Minnesota as of December 31, 1918, plus the net additions to December 31, 1920, at actual

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cost. The proportion of such property used in the company's intrastate business is 93.29 per cent. of the entire Minnesota property. In order to obtain the base value for intrastate rates, the amounts are correspondingly reduced to \$34,923,766.03 and \$27,066,939.75, respectively.

After carefully considering all of the evidence submitted to it and being fully advised in the premises, the Commission finds that on December 31, 1920, the fair value of all of the property of the Northwestern company in the State of Minnesota devoted to the public use, and including in such value adequate allowances for organization expenses, working capital and going concern, was \$29,674,931.98. The proportion of such value devoted to its intrastate business was 93.29 per cent. thereof, or \$27,683,744.05. The value will hereafter be broken up and distributed between toll and exchange.

It is, therefore, ordered, That the amount of \$29,674,931.98 be, and the same is hereby, determined to be the fair value of all of the property of the Northwestern Bell Telephone Company in the State of Minnesota devoted to the public use as of December 31, 1920, and that the proportion thereof devoted to its intrastate business on said date was \$27,683,744.05.

It is not intended by this order to terminate this entire proceeding as there still remain other matters such as the rate of return and the rates themselves to be determined therein.

Dated at St. Paul, Minnesota, this twentieth day of January, 1922.

In re INVESTIGATION OF ALL RATES, TOLLS, CHARGES, RULES
AND REGULATIONS OF THE TRI-STATE TELEPHONE AND
TELEGRAPH COMPANY.

Decided January 20, 1922.

**Value Determined—Allowances Made for Organization Expenses,
Working Capital and Going Concern in Ascertaining Value—
Average Prices for Period of Years Used in Applying Repro-
duction Cost New Method of Arriving at Value—Held
Unfair to Company to Entirely Ignore Period of High
Prices in Ascertaining Value—Use of Life Tables
in Conjunction with Inspection Method Pre-
ferred to Use of Inspection Method Alone
in Determining Depreciation.**

VALUATION ORDER.

The above-entitled proceeding had its inception in a Resolution of the State Senate adopted during the session of 1917, in which this Commission was directed to make a valuation of the toll properties of the company in the State of Minnesota. As soon as funds were available the Commission proceeded to carry out those instructions. Crews were put into the field and a detailed inventory made of all of the property of the company devoted to toll use.

The Tri-State Telephone and Telegraph Company, hereinafter called the company, made independent inventories of both its toll and exchange properties. The inventory of exchange property made by the company was filed with the Commission and then carefully checked. It was found to be substantially accurate and to contain no property not actually owned by the company. The inventories of the toll properties were found to be so nearly alike as to quantity, that the one prepared by the Commission's engineer was accepted in that respect by the company. There is therefore no conflict in this proceeding as to the quantities of property to be included in the valuation.

The matter of ascertaining the proportion of the total amount of telephone property owned and used by the Tri-State Company in the State of Minnesota, which is

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employed in its intrastate business, was carefully considered and a plan worked out and adopted. This plan, which was based upon the use to which the property is put, has been followed by the engineers, both of the Commission and of the company; and, by following it, the Commission has been able to make a reasonable apportionment as between the property used respectively for intrastate and interstate purposes. A similar plan was worked out and adopted by which the values of the property used for toll purposes and the several local exchanges were separately ascertained.

The engineering department and the statistical department of the Commission also made an investigation of the books of the company to ascertain the actual costs of construction of the property to the company. A complete analysis of the capital, plant and depreciation accounts of the company was also made by the statistical department. The results of such investigation and analysis were submitted in evidence.

It was originally intended to have the valuation completed by December 31, 1918. Unforeseen circumstances rendered that impossible. Early in the year 1918 an application was made to the Commission by The Northwestern Telephone Exchange Company and the Tri-State Telephone and Telegraph Company for authority to the former to purchase all of the property of the latter in the city of Minneapolis, and also in the State north of a line drawn east and west across the State, and for authority to the latter to purchase substantially all of the property of the former in the city of St. Paul and also in the State south of said line. This application was supported by civic associations of the Twin Cities and of many other municipalities in the State. It was granted.* This division of territory and exchange of properties required a re-draft of the work already accomplished without, however, necessitating any additional field work.

* See Commission Leaflet No. 78, p. 1490.

On August 1, 1918, the Federal Government took possession and assumed control of the property in question, and continued in such possession and control until August 1, 1919. During a considerable part of said period the Postmaster General refused to allow the company to continue with the valuation work. During said period, a general advance was made in both exchange and toll rates upon order of the Postmaster General. This increase in exchange rates was primarily responsible for enlarging the scope of the valuation as originally commenced, by including therein the exchange as well as the toll property.

Two very exhaustive and painstaking appraisals of the company's property have been submitted to the Commission; one of them prepared by the company's engineers and the other prepared by the Commission's engineer, Mr. D. F. Jurgensen. Both are based upon the so-called reproduction method. In both of them, because of the circumstances above mentioned, the method was applied to the property in the plant on December 31, 1918, the valuation being brought down to December 31, 1920, by adding thereto the net additions actually made at the prices actually paid during said two-year period.

In applying the reproduction method, however, there is a very considerable difference in the values obtained, because of a fundamental difference in the manner of computing the unit prices which were applied. In general, it may be said that the company's engineers used the actual labor and material prices prevailing during the year 1918 in building up their unit prices. Mr. Jurgensen, in general, used an average of the prices prevailing during the eight-year period of 1911 to 1918, inclusive. There were certain exceptions in both cases.

Applying the method as outlined above the company's engineer found that the cost of reproducing new the physical property of the company in the State of Minnesota, both toll and exchange, aggregated \$18,088,114.06, while Mr. Jurgensen found it to be \$14,573,796.15. Both of those sums include allowances for omissions, supply expense,

plant supervision and tool expense, general expense and engineering, and interest during construction. They both also include the sum of \$909,165.56, as the actual cost of net additions to property from January 1, 1919, to December 31, 1920. There was no dispute as to this item.

It will be seen from the foregoing that the main reason for the large difference in the total values above-mentioned is to be found in the methods adopted for obtaining unit prices. In a condemnation case there might be sound reasons for using prices prevailing at a particular date, but there would seem to be little justification for using them in obtaining a value to be used as a rate base. There should be some degree of permanence in the latter. If prices prevailing on a particular day, or even during a particular year, are used, it is clear that the usefulness of the value obtained thereby would cease in the following year, if such prices change. This fact is particularly noticeable in the instant case. The prices in effect on December 31, 1920, differ greatly from those prevailing during the year 1918.

In order to arrive at a value which will not only be fair to the owners of the property, but will possess a certain degree of stability and be useful for a reasonable period thereafter, it has been the general practice to use an average of prices prevailing during a period of years, in applying the reproduction method. This is as necessary for the protection of the owners during periods of severe price recessions as it is for the protection of the public during periods when prices are abnormally increased.

It appears from the testimony and is also a matter of common knowledge that prices, both of labor and materials, commenced to rise in the year 1914, at the beginning of the World War, and continued to increase until the peak was reached in 1920, after which there has been a decline in some prices.

Generally speaking a valuation based upon the prices prevailing during any particular year from 1914 to 1920, would thus be in excess of what might be termed the nor-

mal value prevailing prior to 1914, and would also differ from the values obtained by using prices prevailing during any other year of said period. There was testimony offered by the company's witnesses that the valuation submitted by them, if based on prices prevailing on September 30, 1921, would have been increased approximately 21 per cent.

We believe that there is ample justification, if not indeed a necessity, for using an average of prices prevailing over a period of years in obtaining price units to be used in applying the reproduction method. We also believe that the necessity for so doing is more compelling during periods of abnormal price fluctuations such as we are now emerging from, than during normal times.

While the cost of reproduction is useful and important to be taken into consideration in determining fair value, it is only useful and important when it is reasonably applied, as was pointed out in the *Minnesota Rate Cases*, 230 U. S. 352. That the employing of price units based upon abnormal prices prevailing at a particular time is not a reasonable application of the method, was impressively stated by Justice Hughes while acting as referee in the *Brooklyn Borough Gas Case*, P. U. R. 1918-F, 336. He said therein:

"While it is important to consider the cost of reproduction in determining the fair value of a plant for rate-making purposes, it cannot be said that there is a constitutional right to have the rates of a public service corporation based upon the estimated cost of the reproduction of its property at a particular time regardless of circumstances."

While it would no doubt be unfair to the public to base price units entirely upon war prices, where, as here, the greater part of the property was constructed prior to the war, it would also be unfair to the company to entirely ignore the prices existing over such a considerable period of time in making the valuation. Mr. Jurgensen has not ignored them. We believe that his application of the reproduction method is about as fair a one, both to the public and to the company, as could be devised under the

existing abnormal conditions. In a few minor instances, where he departed from the strict application of this theory and used actual cost figures, notably in the case of buildings and central office equipment, the results obtained are scarcely sufficient to represent the fair value thereof. It also appears from the evidence that sufficient credit was not given by him to all of the items of right-of-way.

As to the results obtained by the application of his method, it is to be noted that after a careful checking of the same, Mr. Allensworth, the company's engineer, testified as follows:

"I have gone over the work performed by Mr. Jurgensen and am free to state that considering the basis he employed and the methods of computation and the theory followed, that were I to have performed the same work I would have reached substantially the same results."

Mr. Jurgensen made substantially the same statement as to the company's valuation.

The company's witnesses and Mr. Jurgensen differ materially as to the amount which should be deducted from the cost new of the physical property because of accrued depreciation. The company's witnesses claim that the accrued depreciation amounts to 10.9 per cent., Mr. Jurgensen claiming it to be 14.3 per cent. By the application of these percentages to their cost new figures, the cost new less depreciation of the physical property is claimed by the company's witnesses to be \$16,120,222.15 and by Mr. Jurgensen to be \$11,971,568.37.

This divergence in percentages arises through the difference in methods used in ascertaining the same. The company's witnesses ascertained the percentage used by them through the use of the inspection method, that is to say, by actual inspection of many of the various items of physical property, and a determination from such inspection of the percentage of depreciation existing therein. Mr. Jurgensen used the inspection method in conjunction with life tables. His life tables were prepared from records disclosing the actual life history of large numbers of sim-

ilar items. In view of the fact that an actual inspection is made of but a comparatively small part of the property, that much actual depreciation is not apparent upon mere inspection, and that the judgment of the inspector must therefore be based upon incomplete knowledge, we are of the opinion that more accurate and reliable results can be obtained from the use of life tables, in conjunction with the inspection method, than by the use of inspection method alone.

The only other difference of opinion between the company's witnesses and Mr. Jurgensen on the reproduction cost, concerns the items of organization expenses, working capital, and going concern value. The amount which they respectively claim should be included for these items, are as follows:

	<i>Company</i>	<i>Mr. Jurgensen</i>
Organization expenses	\$825,831 00	\$463,097 00
Working capital	507,372 17	459,464 81
Going concern value.....	3,697,000 00	1,230,708 64

The differences in the amounts of these items are entirely due to the differences in the methods or theories upon which the computations are made. The methods and theories used by both are recognized and employed by public regulatory bodies and by utility experts. They have all been of aid to the Commission in determining the final value.

The grand totals of the values of the tangible and intangible items entering into the two appraisals and covering all of the property of the company in the State of Minnesota, as appraised by the company's witnesses, were \$21,150,423.32 and by Mr. Jurgensen \$14,133,838.82. These represent the cost of reproduction new, depreciated, of the entire property, both tangible and intangible, of the company in the State of Minnesota as of December 31, 1918, plus the net additions to December 31, 1920, at actual cost. The proportion of such property used in the company's intrastate business is 97.28 per cent. of the entire

Minnesota property. In order to obtain the base value for intrastate rates the amounts are correspondingly reduced to \$20,575,131.81 and \$13,749,398.40, respectively.

The company's witnesses claim that the book cost of the entire Minnesota property, as of December 31, 1920, without deduction for depreciation, is \$16,036,295.98. This amount does not include working capital. The balance in its reserve for depreciation on said date was \$1,670,310.75. The usefulness of the book cost as bearing upon the question of fair value depends, of course, upon the manner in which the books have been kept. With one exception we believe that the book costs as they appear upon the books of the company are, save in a few minor matters, not subject to criticism.

The exception mentioned has to do with the exchange of properties with the Northwestern company in 1918. As a result of that exchange a situation arises which requires some adjustment in the book cost, if it is to be considered as reflecting the actual cost of construction. In the transfer this company received a much larger amount of property than it parted with. All of the added property was placed upon its books on the basis of the replacement cost as of 1918. This was greatly in excess of the amount at which the Northwestern company had carried it upon its own books. The company's own attitude toward this property is indicated by the fact that it appears in its 1920 report of the Commission under the caption "An amount for unappraised property." An adjustment has therefore been made in the book cost figure by including this acquired property at the figures at which it appears upon the books of the Northwestern company as far as they were ascertainable. The importance of this adjustment is apparent because the property covered thereby comprises more than 60 per cent. in value of the company's entire property. Several similar minor adjustments were made as to property acquired from other companies in 1918. With these adjustments the book cost, undepreciated, is very materially reduced.

After carefully considering all of the evidence submitted to it, and being fully advised in the premises, the Commission finds that on December 31, 1920, the fair value of all of the property of the Tri-State Telephone and Telegraph Company in the State of Minnesota devoted to the public use, and including in such value adequate allowances for organization expenses, working capital and going concern was \$14,730,842.2. The proportion of such value devoted to its intrastate business was 97.28 per cent. thereof, or \$14,330,169.21. The value will hereafter be broken up and distributed between toll and exchange.

It is, therefore, ordered, That the amount of \$14,730,848.28 be, and the same is hereby, determined to be the fair value of all of the property of the Tri-State Telephone and Telegraph Company in the State of Minnesota devoted to the public use as of December 31, 1920, and that the proportion thereof devoted to its intrastate business on said date was \$14,330,169.21.

It is not intended by this order to terminate this entire proceeding, as there still remain other matters such as the rate of return, and the rates themselves, to be determined therein.

Dated at St. Paul, Minnesota, this twentieth day of January, 1922.

MISSOURI.

Public Service Commission.

**PUBLIC SERVICE COMMISSION v. TRIPLETT INDEPENDENT
TELEPHONE COMPANY *et al.***

CASE No. 3137.

Decided November 8, 1921.

**Permanent Discontinuance of Service Not Justified on Account of
Inability to Make Prompt Payment—Restoration of Service
Required after Delinquent had Paid in Full.**

REPORT.

On September 9, 1921, J. B. Zimmerman, hereinafter referred to as complainant, notified this Commission that defendants, Triplett Independent Telephone Company and C. W. McAllister, its president and manager, hereinafter referred to as the company, had discontinued and cut off his telephone service at its local exchange of which he had for sometime been a subscriber, and invoking an order from this Commission requiring defendants to restore service.

After an unsuccessful attempt on the part of the Commission to adjust the complaint informally, it was made formal and a hearing held thereon before a special examiner at Moberly, both parties appearing.

The complainant herein resides in the town of Triplett, Missouri, where he does a limited real estate and livestock business, and defendant company operates a local telephone exchange there, with long distance connection and connection with numerous rural telephone companies which defendant company switches and by means of which subscribers of defendant company may communicate with the surrounding country, towns, and cities.

It appeared from the testimony that defendants and complainant had experienced previous difficulties, chiefly over failure of complainant to pay his telephone charges

promptly. It appears complainant had been reasonably prompt with his payments up to the first of March last, at which time he became delinquent, but later paid his telephone account in full up to July first, when he ceased to pay, which resulted in the denial of further service to him by the company from and after September 8, 1921.

Complainant frankly admitted his delinquency of payments, which he contended was due solely to a lack of funds with which to meet these payments as they came due, and shortly after his telephone service was cut off he paid to defendants all sums due on account thereof and asked for a restoration of service which was denied by defendant company.

It was further shown in evidence that other of defendants' subscribers were also sometimes delinquent in their payments for a short time, on which account they were not cut off and denied the service.

Defendant company now undertakes to sustain its refusal to restore service to complainant on the ground of his neglect or refusal to pay telephone charges when due and further charged that his credit standing is not good and that he is in disfavor with a large number of the business men of his town, in support of which charges, affidavits of the mayor, a justice of the peace and a number of business men of Triplett were introduced.

That the above charges are true may be admitted, but if true are insufficient to justify defendants in their refusal to furnish service under the facts of this case.

It is neither the policy of this Commission nor the doctrine of the courts to deny permanently, telephone service to any subscriber, merely because, through stress of financial pressure or otherwise, he was unable to make all payments promptly. And the company would certainly not be warranted in refusing service merely because a subscriber had found disfavor with it and with the community in which he lives.

A public utility must render service to all alike who apply therefor, provided, however, that the patron or

individual desiring such service discharges the corresponding duty to the utility of conforming in all things to such reasonable rules and charges as may be made by the utility, in conformity with law and with the approval of the Commission.

In the instant case the telephone company was clearly within its rights in refusing further service to complainant at the time it did under the then existing circumstances, but complainant having fully paid all obligations to defendant, became and was entitled to a restoration of service, by the company and to be accorded the same consideration as other subscribers of defendants' exchange, and so continue during the time which complainant shall pay the charges of the company in accordance with its schedule on file with this Commission and as are paid by defendants' other subscribers, and otherwise properly use its exchange.

An order will issue accordingly.*

November 8, 1921.

In re SUSPENSION OF RATES OF THE SHELBYNA TELEPHONE
COMPANY.

Case No. 3043.

Decided December 15, 1921.

Tentative Value Determined — Increase in Rates Authorized.

REPORT AND ORDER.

The Shelbyna Telephone Company, a corporation, herein referred to as the company, conducting a general telephone business at Shelbyna, Missouri, having filed with the Commission its P. S. C. Mo. No. 3, and marked for effectiveness August 1, 1921, and,

* Omitted.

Protests having been received from a large number of subscribers to the increase as proposed, the Commission, by its order on the fourteenth day of July, 1921, suspended the effective date for a period of one hundred and twenty days to and including November 28, 1921, unless otherwise ordered by the Commission, and on the sixteenth day of November, 1921, the Commission, by Supplemental Order No. 1, further suspended the effective date for a period of six months to and including May 28, 1922, unless otherwise ordered by the Commission.

A public hearing was held by a member of the Commission at Hannibal, Missouri, on December 8, 1921, due notice of the time and place of said hearing having been served upon the said company and upon the interested parties. At this hearing the company was represented. No protestants appeared. Exhibits were filed by the company and the testimony and exhibits are now before the Commission.

The company has outstanding capital stock in the amount of \$25,000. A copy of an appraisal as made by W. C. Polk, consulting engineer, of Kansas City, Missouri, was filed, which gives the cost, less depreciation, based upon units of average prices that would apply to the pre-war period, in the amount of \$25,733. After carefully checking the unit prices used and taking all the testimony into consideration, the Commission will adopt a tentative value of \$25,000 to be used for rate-making purposes in this case only.

The present rates, which have, according to the testimony, been in force unchanged since the year 1907, and the proposed rates, for telephone service, are as follows:

In re SUSPENSION OF RATES OF THE SHELBYNA TEL. CO. 679

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	<i>Per Month</i>	
	<i>Present Rates</i>	<i>Proposed Rates</i>
Business, direct line.....	\$1 50	\$2 50
Business, two-party line.....	1 25	2 00
Business, four-party line.....	.....	1 75
Business, extension sets.....	50	1 00
Residence, direct line.....	$\left\{ \begin{array}{l} 1\ 00 \\ 1\ 25 \end{array} \right\}$	1 50
Residence, four-party line.....	75	1 25
Residence, extension sets.....	25	50
Desk set, business or residence.....	25	25
Extension bells .....	.....	25

Rural or farm line service:

Class A, switching.....	50	50
Class B, residence.....	$\left\{ \begin{array}{l} 1\ 00 \\ 75 \end{array} \right\}$	1 25
Class C, service.....	.....	1 00
Class D, service.....	.....	1 00
Class E, trunk line.....	2 00	2 00

Moving charge:

Instrument moved within the building.....	50
Instrument moved outside the building.....	1 00

The company furnishes service to 434 subscribers within the city, 272 Class A, rural subscribers, 53 Class B, rural subscribers and 4 subscribers on trunk lines.

The estimated annual revenue at the proposed rates would amount to \$2,697 in excess of that at the present rates.

The company also filed an exhibit showing revenues and expenses for a period covered by the years 1918, 1919, 1920, and eleven months in 1921, as follows:

	<i>Revenue, Gross</i>	<i>Expenses</i>	<i>Net Return for Deprecia- tion and Dividend</i>
1918.....	\$8,570 25	\$6,466 18	\$2,104 07
1919.....	8,930 08	7,500 53	1,429 55
1920	9,071 89	8,006 17	1,066 72
1921 (eleven months to December 1, 1921).. <hr/>	8,069 80 <hr/>	8,147 14 <hr/>	67 34 <hr/>

According to this statement the net return for depreciation and dividends for the eleven months' period during the present year was \$67.34. Taking this as the basis, there will be \$73.46 for depreciation and return for the year 1921. This, added to the \$2,697 increases asked, would furnish \$2,770.40 for depreciation and return on the investment of \$25,000, or 11 per cent., which is not unreasonably high.

The company also claims that it will be necessary to further increase the expenses during the coming year by paying higher salaries and doing considerable repair work.

In addition to the above, the rates as proposed are not above those allowed by the Commission in other cases where the exchanges compare with the Shelbina exchange, and this after full investigation in the premises.

The orders of suspension issued in this case will be dismissed and the company will be allowed to charge the rates contained in its schedule now under suspension, on January 1, 1922, for a temporary period.

It is, therefore, by the Commission ordered, 1. That the orders of the Commission issued on the fourteenth day of July, 1921, and on the sixteenth day of November, 1921, be, and the same are hereby, dismissed and the Shelbina Telephone Company be authorized to charge the rates contained in said schedule for telephone service rendered at Shelbina, Missouri, on January 1, 1922, under certain terms and conditions.

Ordered, 2. That any and all increases in rates herein authorized or permitted shall remain in effect for a period of thirteen months from and after January 1, 1922, at the end of which period such increase in rates shall, without further order, cease, and the rates of said company shall then be reduced and restored by said company to the rates now on file and charged by it; *provided*, that the Commission may hereafter, by further order, continue such increase in rates for another or further period, or otherwise change or modify the rates of said company.

Ordered, 3. That the said company be required to keep a full and accurate account of the revenues and expenses of its exchange, and file a full and complete certified report thereof with this Commission at the expiration of one year after January 1, 1922, which report shall be in addition to any other reports required by law, and that the Commission fully retain jurisdiction of the parties and subject-matter of this cause to continue, change or modify the rates of said company upon the expiration of said period of thirteen months after January 1, 1922, or at any other time, upon the evidence or facts now before the Commission, together with any other evidence that the company or any other interested party may offer.

Ordered, 4. That this order shall be in full force and effect on and after January 1, 1922, and that the secretary of the Commission shall forthwith serve a certified copy of the report and order herein upon the interested parties, and that said Shelbina Telephone Company, on or before the effective date of the order, notify the Commission, in the manner prescribed in Section 25 of the Public Service Commission Law, whether the terms of this order are accepted and will be obeyed.

Jefferson City, Missouri, December 15, 1921.

In re SUSPENSION OF RATES OF THE ELMER TELEPHONE COMPANY FOR ITS EXCHANGES AT ELMER AND GIFFORD.

Case No. 3134.

Decided December 16, 1921.

Tentative Value Determined — Increase in Rates Authorized.

REPORT.

On September 13, 1921, the Elmer Telephone Company hereinafter designated as company, filed with the Com-

mission its P. S. C. Mo. No. 2, containing increased rates for telephone service at its exchanges at Elmer and Gifford, Missouri, and marked for effectiveness November 1, 1921.

Protests were received from the mayor of Elmer and other parties against the increase as proposed. The effective date of the schedule was therefore suspended by the Commission in its order issued on the twenty-eighth day of September, 1921, for a period of one hundred and twenty days to and including January 28, 1922, unless otherwise ordered by the Commission.

The Commission received a large number of letters from the subscribers protesting against the increase as proposed, and also received an equally large number from the subscribers and business men in which they asked that an early hearing be held in the case and in some of the letters suggested that the increase be allowed.

A public hearing was held by Special Examiner Johnson at Elmer, Missouri, on Saturday, November 26, 1921, at 10 a. m. At this hearing the company was represented by counsel and the protestants by *Hon. C. O. Drake*, mayor of Elmer. Testimony was taken, exhibits filed and the company and protestants allowed ten days in which to file briefs or arguments. They have not been received. The case is, therefore, before the Commission upon the evidence as submitted and exhibits filed.

THE FACTS.

The Elmer Telephone Company owns and operates a telephone exchange at Elmer and one at Gifford, Missouri. Free service is given between the two exchanges. As a matter of fact it is, and should be, considered as one exchange, and will be considered such in this report and order.

The present and proposed rates are as follows:

	<i>Per Annum</i>	
	<i>Present Rates</i>	<i>Proposed Rates</i>
Business, direct line (18).....	\$18 00	\$28 20
Residence, direct line (65).....	12 00	16 20
Business extension sets.....		6 00
Residence extension sets.....		6 00
Additional charge for desk set equipment, business or residence	1 80	1 80
<i>Rural or farmer line service:</i>		
Class A, switching (110).....	4 00	7 20
Class B, service (34).....	9 00	13 20
Class C, service.....		13 20
Class D, service.....		13 20

A discount of 10 cents per month allowed if rental is paid in advance.

The total annual revenue derived from these rates, including toll line commissions and other miscellaneous revenue, amounts to \$3,250.20, and at the proposed rates would amount to \$4,504, or an estimated increase of \$1,253.80. However, the above rates are figured on the total amount to be charged, no allowance being made for the rebate for prompt payment.

The total expense incurred amounted to \$2,764.56. It is estimated that the expense for the coming year will amount to \$3,495, increase in the cost of labor and materials being responsible for the estimated increase. However, the actual expense incurred includes an item of \$144.76, interest on borrowed money, which will be deducted, thereby allowing \$2,619.80 as the actual expense incurred for a twelve-months' period.

The company's inventory contains an item of \$1,000 for real estate. The testimony showed that this includes an ice house that is rented for \$35.00 per annum. This amount will be added to the \$3,250.20, the revenue for the past year, thereby increasing it to \$3,285.20.

The company also filed an exhibit showing the amount

collected for a period from October 1, 1919, to November 17, 1921, which shows that during that period there were collected and paid for various expenses certain amounts, and that on November 17, 1921, there was on hand a balance of \$43.60; that dividends in the amount of \$650 had been paid and that the company had reduced its indebtedness in the amount of \$225, which amount was paid on an outstanding note. The statement also shows that there were paid for interest on notes various sums. However, this statement includes, in the revenue, an item of \$100 for note, and under the disbursements shows interest paid, and note and interest, which amounts should not be taken into the expense or revenue in this case. Consequently, the statement as filed cannot be used, except as a check upon the statement filed with the rate sheet.

The testimony shows that the manager receives \$50.00 per month salary, he devoting three-fourths of his time to the telephone business and the other part of his time being devoted to other business. The operators at Elmer, two in number, receive \$30.00 per month each, and the operator at Gifford \$35.00 per month, so that the total pay-roll at all times amounts to \$145 per month, or \$1,740 per annum. As the total expense for the past year amounts to \$2,619.80, there should remain \$879.80 expenses for livery hire, extra help, materials, light, heat, taxes, etc., which is not extravagant or high.

The company gives free service to La Plata, Atlanta, Ethel, Goldsberry, and connecting exchanges; gives an all day and emergency night service.

There was very little complaint against the service as rendered. The testimony did show that the plant needed repairs, and the telephone officials stated that it was their intention to make some deferred maintenance repairs during the coming year.

The company filed as an exhibit copy of an inventory made about three months since which shows a total value of \$10,893.77 for the entire property used and useful in conducting the telephone business. The unit of prices as

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used has been carefully checked, and while the materials are priced at practically present-day cost, the labor in the amount of \$250 is entirely inadequate.

The company furnishes service to 189 subscribers over company-owned lines. Forty-five dollars per station would be a fair value to be placed upon them. Consequently, \$8,505 would be the price to be placed upon that part of the property of the telephone company, to which should be added \$500 for that part of the property used in furnishing service to the 110 Class A or rural line subscribers, making a total of \$9,005, to which should be added the \$1,000 for real estate, making a total of \$10,005 as the value of the entire property. The Commission will adopt \$10,000 as the tentative value to be used for rate-making purposes in this case only.

The testimony shows that the rates as filed allow a discount for prompt payment. This the Commission believes to be unnecessary. The evidence did not show that any considerable trouble was experienced in making collections. The Commission will allow the company to file rate sheet containing the following rates to be charged for telephone service on and after January 1, 1922, for a temporary period.

	<i>Per Annum</i>
Business, direct line.....	\$24 00
Residence, direct line.....	15 00
Additional charge for desk set equipment, business or residence	1 80
<i>Rural or farm line service:</i>	
Class A, switching.....	6 00
Class B, service.....	15 00
Class C, service.....	12 00
Class D, service.....	12 00

It is estimated that if no loss in subscribers occurs by the increase as allowed, the company will receive an additional revenue of \$605 per annum. This, added to the \$665.40, profit for the past year, will produce \$1,270.40 as the amount for depreciation reserve and return upon

the investment of \$10,000 adopted as the tentative value on this case, or 12.7 per cent., which amount is not unreasonably high.

The company will be ordered to withdraw its schedule now under suspension and file one in accordance with the above rates allowed, on one day's notice, effective January 1, 1922, for a period of thirteen months. It will also be required to keep its accounts in accordance with General Order No. 22* as issued by the Commission, and at the expiration of a twelve-months' period file with the Commission a report showing the revenues and expenses for the twelve-months' period.

An order in accordance with the above will issue.

ORDER.

This case being at issue upon the question of the reasonableness and lawfulness of the rates and charges provided for in Elmer Telephone Company's Schedule P. S. C. Mo. No. 2, cancelling its P. S. C. Mo. No. 1, the effective date of said schedule having been suspended by the Commission on September 28, 1921, and full investigation in relation thereto having been made by the Commission at a public hearing at Elmer, Missouri, on November 26, 1921, after due notice to all interested parties of the time and place of said hearing, and the Commission having this day made and filed its report herein containing its findings of facts and conclusions thereon, which report is hereby referred to and made a part hereof,

Now, after due deliberation, it is ordered, 1. That said Elmer Telephone Company be, and it is hereby, required to withdraw its said Schedule P. S. C. Mo. No. 2, cancelling its P. S. C. Mo. No. 1, and that said company be, and it is hereby, authorized to file its schedule in conformity with the views of the Commission expressed in said report, such schedule to become effective on January 1, 1922, upon one day's notice by filing same in the office of the Commission.

* See Commission Leaflet No. 76, p. 748.

Ordered, 2. That any and all increase in rates herein authorized or permitted shall remain in effect for a period of thirteen months from and after the effective date of the schedule named herein, at the end of which period such increase in rates shall, without further order, cease and the rates of said company shall then be reduced and restored by said company to the rates now on file or charged by it; *provided*, that the Commission may hereafter by further order continue such increase in rates for another or further period, or otherwise change or modify the rates of said company.

Ordered, 3. That the said company be required to keep a full and accurate account of the revenues and expenses of its exchange and file a full and complete report with this Commission at the expiration of one year after the effective date of the proposed schedule, which report shall be in addition to any other reports required by law, and that the Commission fully retain jurisdiction of the parties and subject-matter of this case to continue, change or modify the rates of said company upon the expiration of said period of thirteen months after the effective date of such rates, or at any other time, upon the evidence and facts now before the Commission, together with such other evidence as the company or any interested party may offer.

Ordered, 4. That this order shall be in full force and effect on and after ten days from the date hereof, and that the secretary of the Commission forthwith serve a certified copy of the report and order herein on the interested parties, and that said Elmer Telephone Company, on or before the effective date of this order, notify the Commission, in the manner prescribed in Section 25 of the Public Service Commission Law, whether the terms of this order are accepted and will be obeyed.

December 16, 1921.

In re APPLICATION OF THE KANSAS CITY TELEPHONE COMPANY FOR INCREASED RATES FOR UNIFIED LOCAL EXCHANGE SERVICE IN THE CITY OF INDEPENDENCE.

Case No. 2532.

Decided December 21, 1921.

Former Increased Rates Continued in Effect.

SUPPLEMENTAL ORDER No. 1.

It appearing that the Commission, after due investigation, and after the company named above had submitted satisfactory evidence that certain of its rates for telephone service, charged at its exchange at Independence, Missouri, were inadequate, unjust and unreasonable, did, by its order* in the above-entitled case, on the ninth day of November, 1920, permit the said company to put certain increased rates into effect for a temporary period, under certain terms and conditions, and,

It now appearing, further, that the company did show by its verified report, on the basis of one year, that its revenues from operation had been sufficient to pay a not unreasonable or high rate of return on the investment, and it appearing that the operating costs of the company have not been materially reduced during the period covered by the above-named report,

Therefore, it is ordered, 1. That the Kansas City Telephone Company, at its exchange in Independence, Missouri, be permitted to continue the rates allowed to be charged, in the above-mentioned order, for a further period of thirteen months, from January 1, 1922, to February 1, 1923, unless otherwise ordered by the Commission, at the end of which temporary period such increased rates shall cease without further notice, and the rates and charges of said Kansas City Telephone Company at its Independence exchange shall then be reduced and restored by it to the rates on file and charged by it previous to the effect-

* See Commission Leaflet No. 109, p. 1375.

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ive date of the above-mentioned order; *provided*, that the Commission may hereafter, by further order, continue such increase in rates for another and further period, or otherwise change or modify such rates and charges, either upon evidence now before the Commission, or which may be offered in this case, and for the purpose of making such changes in said rates the Commission hereby fully retains jurisdiction of this case.

Ordered, 2. That said Kansas City Telephone Company be required to keep a full and correct account of revenues and expenses of its Independence exchange, and file a full and complete report thereof with the Commission at the expiration of a twelve-months' period from January 1, 1922, which report shall be in addition to any other reports required by law.

Ordered, 3. That this order shall be in full force and effect from and after this date.

Ordered, 4. That the secretary of the Commission shall forthwith serve upon the parties hereto a certified copy of this order, and that the company shall, within ten days, notify the Commission, in the manner prescribed in Section 25 of the Public Service Commission Law, whether the terms of this order are accepted and will be obeyed.

December 21, 1921.†

† Similar orders were issued in the following cases:

<i>Albany Telephone Company...</i>	(Case No. 2443).	December 15, 1921.
<i>King City Telephone Exchange Company</i>	(Case No. 2403).	December 15, 1921.
<i>Capital Telephone Company at Jefferson City</i>	(Case No. 1659).	December 19, 1921.
<i>Home Telephone Company of Joplin at Webb City.....</i>	(Case No. 1458).	December 20, 1921.

ANDREW COUNTY MUTUAL TELEPHONE COMPANY v. SOUTH-
WESTERN BELL TELEPHONE COMPANY.

Case No. 2789.

*Decided December 21, 1921.***Motion for Rehearing Denied.**

REPORT ON MOTION FOR REHEARING.

On September 22, 1921, the defendant filed its motion for a rehearing and the motion is now before the Commission upon oral and written arguments by counsel for both complainant and defendant.

The Commission, after careful consideration of all matters of argument presented on the motion for a rehearing, concludes that it will adhere to its former decision.*

Moreover, the position of defendant throughout the investigation of this cause has been without supporting merit. The defendant, by voluntary purchase, came into the telephone field now covered by the contract with the complainant, and with full knowledge of the existing contract. Of all interested parties to the contract, none have been or are now lodging complaint to the contract and terms thereof, save and except the defendant who, as above recited, is a voluntary entrant thereto. What plausible reason is there for our Commission to permit the defendant to disregard the terms of the contract, even if we grant for argumentative purposes that we have jurisdiction to so hold? The defendant says that unjust discrimination is being practiced, but we find no unjust discrimination that would warrant us in calling to relief of the present situation the sovereign police power of the State under which we act. Everybody connected with the subject-matter appears to be satisfied except the defendant. Is there some dire calamity about to be visited upon the defendant because it is legally required to continue performance of telephone service bottomed upon contrac-

* See Commission Leaflet No. 119, p. 1138.

tual terms and conditions that it voluntarily acquired? Has the defendant suffered financial reverses since it became a voluntary party to the contract, or has it now such depleted operating net revenue that it cannot continue to function in its duties to the public unless we give it relief from this contract?

We search the record in vain to find any reason why we should exercise the police power, even if we do have jurisdiction to relieve defendant of the contract in this case.

Underlying the delegated legislative authority creating this Commission is a fundamental principle that we will only utilize the great police power of the State when it is necessary to subserve the general welfare of the State or portions thereof. We find no such status exists in this cause.

An order will issue overruling defendant's motion for a rehearing.

December 21, 1921.

SEPARATE CONCURRING OPINION.

KURTZ, *Chairman*:

I concur in the action of the Commission in overruling the motion for rehearing in this case. I desire to state, however, that after hearing the argument on the motion and further investigation of the law in reference to the question as to whether this Commission has jurisdiction to fix rates different from those agreed upon in the contract between the parties in this cause, it is my opinion the Commission in its original opinion was in error.

On the other hand, it appears to me that complainant in this case failed to establish facts showing a sufficient necessity justifying this Commission in invoking the police power to set aside the contract rates. Therefore, the motion for rehearing should be overruled.

December 21, 1921.

ORDER.

The above case being now before the Commission, defendant's motion for rehearing, and the Commission on the date hereof having made a report in writing containing its findings and conclusions herein, after hearing oral and written arguments by counsel for both complainant and defendant on said motion for rehearing, which said report is hereby referred to and made a part hereof,

It is, accordingly, ordered, 1. That the motion for rehearing of defendant herein asking the Commission to set aside its report and order* entered and rendered by it on the twelfth day of September, 1921, be, and the same is hereby, overruled.

Ordered, 2. That this order shall take effect on this date.

December 21, 1921.

In re APPLICATION OF THE HUNTSVILLE TELEPHONE COMPANY TO INCREASE RATES FOR SERVICE.

Case No. 3192.

Decided December 27, 1921.

Tentative Value Determined — Increase in Rates Authorized — Improvements and Repairs Ordered — Long Distance Service Over Rural Lines Owned by Subscribers Held Objectionable.

REPORT AND ORDER.

The Huntsville Telephone Company, hereinafter known as the company, on July 22, 1921, filed with the Commission its application for permission to increase the rates for Class A switching service at Huntsville, Missouri, from 25 cents per month to 50 cents per month. No other change in rates for the various classes of service was made at

* See Commission Leaflet No. 119, p. 1138.

this time. Due notice was given the public of the intention to increase the rates, effective January 1, 1922, by advertising in the local papers on the twenty-second day of September, 1921, and on the thirtieth day of September, 1921.

The Commission made such investigation as was necessary from the statements filed by the telephone company and also addressed a letter to the mayor of Huntsville asking if the city desired to protest against the rates as proposed. No reply was received to this communication and no protest received from any subscriber for several months. On December 13, 1921, the Commission received a protest signed by a committee of the rural line subscribers, in which they stated that the service as rendered by the company was poor; that the company was collecting for toll calls sent over the lines and switchboards of the mutual telephone companies; that this was not a proper time to ask for an increase in the rates. They also asked that the company be compelled to furnish a new switchboard, an operator for rural lines, and that the existing rate of \$3.00 per year be continued; that the Commission set the case down for hearing at as early a date as possible for the reason that the proposed rates would by the company be put into force on January 1, 1922; that it was the intention of the farmer subscribers to form a mutual company and establish an exchange at Huntsville if the increase as proposed was allowed.

Accordingly, a public hearing was held by Special Examiner Johnson at Huntsville, Missouri, on December 23, 1921, due notice of such hearing having been served upon the company and interested parties. The telephone company was represented at the hearing by its officials and attorneys, and a large number of the rural line subscribers were in attendance and introduced such testimony individually as they desired.

The company filed an exhibit showing that it is furnishing service to 364 subscribers within the city limits of

Huntsville and Class A switching service to 361 rural line subscribers.

The Commission, in a former case, fixed a tentative value on the plant in the amount of \$19,500. Since that date the company has expended \$655.40 in the way of extensions, so that at the present time the value of \$20,000 will by the Commission be taken as a tentative value for rate-making purposes in this case only. The company claims that the value is about \$30,000.

The total revenue from all sources at present amounts to \$9,199.08, and at the proposed rates, on the theory that there will be a loss of about 60 Class A subscribers, the net increase would be \$997.95, or a total annual revenue of \$10,197.03.

The total operating expenses will amount to \$7,404.32, so that there will be \$2,792.71 for depreciation reserve and return upon the investment. For reasons which will be given later, we will add the amount of \$3,000, covering the cost of a new switchboard, and therefor have \$23,000 as the tentative value to be used by the Commission in finding amount for depreciation reserve and return for the company, which will be 12 per cent., a not unusual or high rate of return.

The testimony all shows that the service as furnished by the company is poor, it being slow and unreliable. The company admits that its service is not good and gives as a reason the fact that part of the switchboard is old and has been in service more than twenty years. The entire number of subscribers, over 700, is being furnished service over a two-position board and this number of operators is not sufficient to give a good service with a modern and up-to-date board. In the present case one section of the board, while it has been kept in repair, is unreliable, no ring-out drop being used, the shutter on the cord circuits being used in its stead and under certain conditions the shutter will not fall when the subscriber tries to recall the operator after conversation.

For several years the question of a new switchboard has been considered by the telephone company. The rural line subscribers claim that a new board was promised five years ago, at which time an increase in rates was allowed the telephone company. There is no question that a new board should at once be purchased and installed.

The testimony also showed that some of the Class A rural lines were badly in need of repair. The manager stated that four of these lines, on which a great number of subscribers was furnished service, were crossed up and had been in that condition for about two weeks. The divided opinion as to who is responsible for the upkeep of the lines was introduced. The company stated that it had inspected its lines to the city limits and that beyond that, in its opinion, the trouble was caused by the rural lines owned by the farmers, but the lines had not been cut at the city limits and tests made to locate the trouble.

The officials of the telephone company stated that they had made investigation and that a new three-position switchboard of modern type could be purchased and installed within one hundred and twenty days at a cost of about \$3,000, and that undoubtedly it should be done; that they were willing to do this, provided 300 of the rural line subscribers would accept the rates as authorized by this Commission, and that if the entire number of rural line subscribers followed out their threat of disconnecting from the Huntsville Telephone Company switchboard and started a mutual company of their own that the present board could be repaired and a good service furnished over the same by two operators; that the 364 subscribers located within the city limits could be furnished a first-class service after the switchboard had been repaired, if the rural line subscribers started a mutual company.

The question of the rural line subscribers starting a mutual company has apparently been thoroughly threshed out for several years. The company was induced to give these rural line subscribers, several years ago, a discount of 15 per cent. from the established rate allowed by the

the investment of \$10,000 adopted as the tentative value on this case, or 12.7 per cent., which amount is not unreasonably high.

The company will be ordered to withdraw its schedule now under suspension and file one in accordance with the above rates allowed, on one day's notice, effective January 1, 1922, for a period of thirteen months. It will also be required to keep its accounts in accordance with General Order No. 22* as issued by the Commission, and at the expiration of a twelve-months' period file with the Commission a report showing the revenues and expenses for the twelve-months' period.

An order in accordance with the above will issue.

ORDER.

This case being at issue upon the question of the reasonableness and lawfulness of the rates and charges provided for in Elmer Telephone Company's Schedule P. S. C. Mo. No. 2, cancelling its P. S. C. Mo. No. 1, the effective date of said schedule having been suspended by the Commission on September 28, 1921, and full investigation in relation thereto having been made by the Commission at a public hearing at Elmer, Missouri, on November 26, 1921, after due notice to all interested parties of the time and place of said hearing, and the Commission having this day made and filed its report herein containing its findings of facts and conclusions thereon, which report is hereby referred to and made a part hereof,

Now, after due deliberation, it is ordered, 1. That said Elmer Telephone Company be, and it is hereby, required to withdraw its said Schedule P. S. C. Mo. No. 2, cancelling its P. S. C. Mo. No. 1, and that said company be, and it is hereby, authorized to file its schedule in conformity with the views of the Commission expressed in said report, such schedule to become effective on January 1, 1922, upon one day's notice by filing same in the office of the Commission.

* See Commission Leaflet No. 76, p. 748.

Ordered, 2. That any and all increase in rates herein authorized or permitted shall remain in effect for a period of thirteen months from and after the effective date of the schedule named herein, at the end of which period such increase in rates shall, without further order, cease and the rates of said company shall then be reduced and restored by said company to the rates now on file or charged by it; *provided*, that the Commission may hereafter by further order continue such increase in rates for another or further period, or otherwise change or modify the rates of said company.

Ordered, 3. That the said company be required to keep a full and accurate account of the revenues and expenses of its exchange and file a full and complete report with this Commission at the expiration of one year after the effective date of the proposed schedule, which report shall be in addition to any other reports required by law, and that the Commission fully retain jurisdiction of the parties and subject-matter of this case to continue, change or modify the rates of said company upon the expiration of said period of thirteen months after the effective date of such rates, or at any other time, upon the evidence and facts now before the Commission, together with such other evidence as the company or any interested party may offer.

Ordered, 4. That this order shall be in full force and effect on and after ten days from the date hereof, and that the secretary of the Commission forthwith serve a certified copy of the report and order herein on the interested parties, and that said Elmer Telephone Company, on or before the effective date of this order, notify the Commission, in the manner prescribed in Section 25 of the Public Service Commission Law, whether the terms of this order are accepted and will be obeyed.

December 16, 1921.

In re APPLICATION OF THE KANSAS CITY TELEPHONE COMPANY FOR INCREASED RATES FOR UNIFIED LOCAL EXCHANGE SERVICE IN THE CITY OF INDEPENDENCE.

Case No. 2532.

Decided December 21, 1921.

Former Increased Rates Continued in Effect.

SUPPLEMENTAL ORDER No. 1.

It appearing that the Commission, after due investigation, and after the company named above had submitted satisfactory evidence that certain of its rates for telephone service, charged at its exchange at Independence, Missouri, were inadequate, unjust and unreasonable, did, by its order* in the above-entitled case, on the ninth day of November, 1920, permit the said company to put certain increased rates into effect for a temporary period, under certain terms and conditions, and,

It now appearing, further, that the company did show by its verified report, on the basis of one year, that its revenues from operation had been sufficient to pay a not unreasonable or high rate of return on the investment, and it appearing that the operating costs of the company have not been materially reduced during the period covered by the above-named report,

Therefore, it is ordered, 1. That the Kansas City Telephone Company, at its exchange in Independence, Missouri, be permitted to continue the rates allowed to be charged, in the above-mentioned order, for a further period of thirteen months, from January 1, 1922, to February 1, 1923, unless otherwise ordered by the Commission, at the end of which temporary period such increased rates shall cease without further notice, and the rates and charges of said Kansas City Telephone Company at its Independence exchange shall then be reduced and restored by it to the rates on file and charged by it previous to the effect-

* See Commission Leaflet No. 109, p. 1375.

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ive date of the above-mentioned order; *provided*, that the Commission may hereafter, by further order, continue such increase in rates for another and further period, or otherwise change or modify such rates and charges, either upon evidence now before the Commission, or which may be offered in this case, and for the purpose of making such changes in said rates the Commission hereby fully retains jurisdiction of this case.

Ordered, 2. That said Kansas City Telephone Company be required to keep a full and correct account of revenues and expenses of its Independence exchange, and file a full and complete report thereof with the Commission at the expiration of a twelve-months' period from January 1, 1922, which report shall be in addition to any other reports required by law.

Ordered, 3. That this order shall be in full force and effect from and after this date.

Ordered, 4. That the secretary of the Commission shall forthwith serve upon the parties hereto a certified copy of this order, and that the company shall, within ten days, notify the Commission, in the manner prescribed in Section 25 of the Public Service Commission Law, whether the terms of this order are accepted and will be obeyed.

December 21, 1921.†

† Similar orders were issued in the following cases:

Albany Telephone Company... (Case No. 2443). December 15, 1921.

King City Telephone Exchange Company (Case No. 2403). December 15, 1921.

Capital Telephone Company at Jefferson City (Case No. 1659). December 19, 1921.

Home Telephone Company of Joplin at Webb City..... (Case No. 1458). December 20, 1921.

	Number	Per Annum	
		Present Rate	Proposed Rate
Single line, business.....	283	\$36 00	\$48 00
Single line, residence.....	609	18 00	30 00
Extension, business.....	37	12 00	12 00
Extension, residence.....	19	6 00	9 00
Joint user, business.....	5	6 00	15 00
Joint user, residence.....	.....	6 00	9 00
Cut-in jacks, business or residence.....	.....	.....	12 00
Additional charge for desk telephone, business or residence.....	237	3 00	3 00
<i>Business, P. B. X. Service:</i>			
Trunk lines.....	.....	36 00	48 00
P. B. X. switchboards, less than 50 lines.....	.....	.....	48 00
P. B. X. switchboards, 50 and more.....	.....	.....	60 00
Stations.....	.....	12 00	12 00
<i>Hotel, P. B. X. Service:</i>			
Trunk lines (guarantee).....	8	36 00	48 00
Trunk lines (toll).....	2	36 00	48 00
<i>Intercommunicating System Service:</i>			
Answering stations.....	4	12 00	48 00
Extension stations.....	9	12 00	42 00
Trunks.....	4	36 00	48 00
<i>Boarding and Rooming House:</i>			
Four or more outside of family.....	.....	.....	48 00
<i>Rural Service:</i>			
Eight-party, residence.....	153	18 00	21 00
Eight-party, business.....	.....	.....	30 00
<i>Excess Mileage:</i>			
For each mile or fraction thereof, beyond the city limits, add to city rate.....	13	12 00	24 00
For each mile or fraction thereof, beyond city limits, add to city rate.....	9	6 00	24 00
Schools.....	3	18 00	30 00
Lodges.....	4	15 00	30 00
Churches.....	1	.....	30 00

The company, in explanation of the above, stated that although it is already authorized to charge \$3.00 per annum extra charge where desk set equipment is used, it had not in the past been making such charge. It also calls attention to the fact that the boarding and rooming house rate of \$48.00 per annum is a new one, the present schedule containing no such charge, but on account of the number of boarding and rooming houses in the city, where large numbers of transient boarders and roomers are kept, it was necessary to charge the same rate for that class of service as is charged other business subscribers.

In re THE KANSAS CITY LONG DISTANCE TEL. Co. 701

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The company estimates that the proposed rates will result in an increase in the annual revenue in the amount of \$12,972.

The company filed Exhibit C, showing the value of the property at Excelsior Springs, as follows:

Value January 1, 1918, as per inventory of Engineer W. F.	
Sloan, cost new.....	\$119,232 00
Cost new, less depreciation.....	96,062 00
Cost new, less unused duplicate property, January 1, 1918	\$501 00
Less toll property outside the city included in Sloan's inventory	2,101 00
	<hr/>
MAKING A TOTAL OF.....	\$93,961 00

as the cost new, less depreciated value, of the property used in the telephone exchange service, to which should be added the following:

Net additions to fixed capital between January 1, 1918, and May 31, 1920.....	\$4,801 06
	<hr/>
TOTAL	\$98,762 06
Working capital	3,000 00
Cost of development.....	7,500 00
Going value	17,000 00
	<hr/>
MAKING A TOTAL OF.....	\$126,262 06

as the cost new, less depreciated value, of the property as of May 31, 1920, and on which amount the rates for service should be based, in order that the company would receive a fair amount for depreciation reserve and return upon the investment.

The company filed a condensed statement of revenues and expenses for a period of one year, from August 1, 1919, to July 31, 1920, inclusive, as follows:

Revenue:

Exchange service revenue.....	\$26,526 30
Toll service revenue.....	4,515 22
Miscellaneous operating revenue.....	50 55
	<hr/>
	\$31,092 07
Less uncollectable revenue.....	103 20
	<hr/>
Collectable revenue	\$30,988 87

Expenses:

Maintenance	6,572 84
Traffic	10,438 05
Commercial	3,902 23
General and miscellaneous.....	2,191 64
Rents	504 00
Taxes	1,627 16
Debt expense	470 16
	<hr/>
TOTAL EXPENSE	\$25,706 08
	<hr/>
NET REVENUE	\$5,282 79

The company owns the equipment and furnishes service to about 1,400 subscribers, of which 153 are located in the country.

The Commission has made no inventory of the exchange at Excelsior Springs. The inventory as made by Wm. F. Sloan, was based upon the cost of reproducing the property, based on unit prices that prevailed during the three to five-year period previous to February, 1918.

In 1916 the company purchased the Clay County Telephone Company's property in Excelsior Springs and consolidated the two plants, dismantling that portion of the Clay County company's plant that duplicated the plant of the company, with the exception of the underground conduit and cables.

The inventory includes the item of real estate in the amount of \$8,793. Aside from this amount, the rest of the property that was invoiced by Mr. Sloan is undoubtedly given a higher value than should be placed upon the prop-

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erty, for the reason that the plant was constructed before the prices prevailing at the time of the inventory, and which the engineers for telephone companies all give as being from 20 per cent. to 35 per cent. higher than the pre-war prices.

The Commission will, therefore, take the value of \$96,062 which Mr. Sloan gives as the cost new, less depreciation, as the value of the property on January 1, 1918, and deducting the \$8,793, the value of the real estate, we have \$87,269 as the cost new, less depreciation, value of the property, exclusive of the real estate, which is undoubtedly 20 per cent. higher than should be allowed. We will, therefore, deduct the 20 per cent. and have a value of \$69,815.20 as the pre-war value of the property, and to this add the \$8,793, the real estate value, and have \$78,608.20 as the value of the property January 1, 1918.

We will also deduct the \$2,101, the toll property outside the city, and less unused duplicate property, which was included in Sloan's inventory, and have an amount of \$76,507.20 as the fair value of the property on January 1, 1918, to which there should be added net additions to fixed capital in the amount of \$5,158.29, making a total depreciable property value of \$81,665.49, to which should be added working capital in the amount of \$3,000, and the item of \$10,000 for intangibles, and place a tentative value of \$94,665.49 on the property to be used as a rate-making basis in this case.

The condensed statement of revenues and expenses, above mentioned, shows:

Revenues from all sources.....	\$30,988 87
Expenses during the same period, exclusive of depreciation and return upon the investment, amounted to.....	25,706 08
PROVIDING A NET REVENUE OF.....	<hr/> \$5,282 79

The expense item includes debt expense of \$470.16 which, it is assumed, covers the same debt expense that has been rejected by the Commission in other cases. We will

consequently disallow this item and there will, therefore, be \$5,752.95 as the correct amount for net revenue.

As above stated, the increase in revenue at the rates proposed by the company would amount to \$12,972 per annum, which added to the net revenue would result in the amount of \$18,724.95.

The company also filed a statement of the estimated expense for the coming year showing that increases in the salaries of the operators and other employees, made necessary in order to retain their services, would amount to \$1,901.72, which deducted from the \$18,724.95 above mentioned, would leave \$16,823.23 for depreciation reserve and return upon the investment, or 17 per cent., which amount is unreasonably high and will not be allowed by the Commission.

The accountants for the Commission made an audit of the company's books showing the revenues and expenses of the company at Excelsior Springs for nine months ended the thirtieth of September, 1921. The result of the audit by the accountants is shown by the table below:

	Total	Assigned to Toll	Assigned to Exchange
<i>Operating Revenues:</i>			
Subscribers' station revenues.....	\$20,841 72	.....	\$20,841 72
Public pay stations.....	151 80	.....	151 80
Private exchange lines.....	11 25	.....	11 25
Minor rents of exchange plant.....	53 40	.....	53 40
Message tolls.....	3,168 52	\$3,168 52	.....
Messenger service.....	15 95	15 95	.....
Advertising and directory.....	355 68	.....	355 68
TOTAL REVENUES.....	\$24,598 32	\$3,184 47	\$21,413 85
<i>Operating Expenses:</i>			
Maintenance.....	\$4,910 53	\$621 35	\$4,289 18
Traffic.....	8,793 48	3,172 83	5,620 65
Commercial.....	4,433 31	1,791 62	2,641 69
General.....	4,139 85	1,394 87	2,744 98
Miscellaneous rents.....	1,313 15	424 28	888 87
Taxes.....	1,114 20	359 99	754 21
TOTAL.....	\$24,704 52	\$7,764 94	\$16,939 58
Net loss from operations.....	\$106 20	\$4,580 47	.....
Net profit from operations.....	.....	.....	\$4,474 27

The accountants separated the revenues and expenses between toll and exchange service with the result that there was a deficit for the period of \$4,580.47 from the toll business and a surplus for depreciation and return of

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\$4,474.27 from the exchange rates, which is at the rate of \$5,966 annually. We are dealing with the exchange rates here and not concerned with the loss from toll business except to see that no part of it is charged to exchange service.

The exchange rates now in force at Excelsior Springs will yield \$5,966 above operating expenses, which is \$5,867 less than 12.5 per cent. on the valuation as assumed tentatively of \$94,665.49.

It is estimated the following rates will produce the additional revenue required. The company will be authorized to file rate sheet containing:

	<i>Per Annum</i>
Business, single line.....	\$42 00
Residence, single line.....	24 00
Business, extension	12 00
Residence, extension	9 00
Joint user, business listing.....	12 00
Joint user, residence listing.....	9 00
Cut-in jacks, business or residence.....	12 00
Additional charge for desk set equipment, business or residence	3 00
<i>Private Branch Exchanges:</i>	
Trunk lines	42 00
Switchboard, less than 50 lines.....	42 00
Switchboard, 50 and more.....	54 00
Stations	12 00
<i>Hotel, P. B. X.:</i>	
Trunk lines (guarantee).....	42 00
Trunk lines (toll).....	42 00
<i>Intercommunicating System:</i>	
Answering stations	42 00
Extension stations	36 00
Trunks	42 00
<i>Rural Service:</i>	
Eight-party, residence	21 00
Eight-party, business	30 00
For each quarter or fraction thereof beyond the city limits, add to city rate.....	6 00
Lodges }	24 00
Schools }	
Churches }	

The company submits no evidence as to the number of residence subscribers who would, under the proposed schedule, be known as boarding or rooming houses. There are 609 residence subscribers in the city and a large number would undoubtedly be thereafter classed as boarding and rooming houses. The Commission, in the absence of any testimony showing any estimated number, will at this time refuse such rate.

CONCLUSION.

A comparison of the revenues and expenses of the statement as submitted by the company when filing this case and at the hearing made with the statement submitted by the accountants for the Commission, shows that there has been a slight decrease in the revenue during the past year and an increase in the expenses for conducting the business. Some deferred maintenance and increases in salaries may have been included in the latter report. However, there is no question that the company is entitled to some relief at this time.

The Commission will therefore allow the rates to be put in force for a temporary period of thirteen months, and at the expiration of a twelve months' period the company will be required to file a full and complete verified report of its operating revenues and expenses. The Commission will at that time determine what, if any, changes should be made in rates as allowed.

Considerable testimony was introduced by the protestants with reference to the matter of service as furnished. However, it was not more than is usual in rate cases of this character. The company admitted that in the past it had been unable to secure, in all cases, competent help, but that the condition no longer existed. The service has undoubtedly been improved since that time. The Commission will, however, retain full jurisdiction over the matter of service.

The company will be allowed to file a rate sheet in con-

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formity with the views above expressed, effective on or not less than one day's notice.

An order in conformity with the above will issue.

ORDER.

This case being at issue upon the question of the reasonableness and lawfulness of the rates and charges provided for in Kansas City Long Distance Telephone Company's application to increase rates for telephone service at its Excelsior Springs exchange, and full investigation in relation thereto having been made by the Commission at a public hearing held at Excelsior Springs, Missouri, on the twenty-ninth day of November, 1920, after due notice to all interested parties of the time and place of said hearing, and the Commission having this day made and filed its report herein containing its findings of facts and conclusions thereon, which report is hereby referred to and made a part hereof,

Now, after due deliberation,

It is ordered, 1. That said Kansas City Long Distance Telephone Company be, and it is hereby, authorized to file its schedule in conformity to the views of the Commission expressed in said report, such schedule to become effective on February 1, 1922, upon not less than one day's notice, by filing same in office of the Commission.

Ordered, 2. That any and all increase in rates herein authorized or permitted shall remain in effect for a period of thirteen months from and after the effective date of the schedule named herein, at the end of which period such increase in rates shall, without further order, cease, and the rates of said company shall then be reduced and restored by said company to the rates now on file or charged by it; *provided*, that the Commission may hereafter by further order continue such increase in rates for another or further period, or otherwise change or modify the rates of said company.

Ordered, 3. That the said company be required to keep a full and accurate account of the revenues and expenses of its exchange at Excelsior Springs and file a full and

complete report with this Commission at the expiration of one year after the effective date of the authorized schedule, which report shall be in addition to any other reports required by law; and that the Commission fully retain jurisdiction of the parties and subject-matter of this case to continue, change or modify the rates of said company upon the expiration of said period of thirteen months after the effective date of such rates, or at any other time, upon the evidence and facts now before the Commission, together with such other evidence as the company or any interested party may offer.

Ordered, 4. That this order shall be in full force and effect on and after fifteen days from the date hereof, and that the secretary of the Commission forthwith serve a certified copy of the report and order herein on the interested parties, and that said Kansas City Long Distance Telephone Company, on or before the effective date of this order, notify the Commission in the manner prescribed in Section 25 of the Public Service Commission Law, whether the terms of this order are accepted and will be obeyed.

January 4, 1922.

In re APPLICATION OF THE KANSAS CITY LONG DISTANCE
TELEPHONE COMPANY TO INCREASE ITS RATES AT RICH-
MOND.

Case No. 2917.

Decided January 5, 1922.

**Tentative Value Fixed — Allowance of 6 Per Cent. on Tentative Value
for Depreciation, Surplus and Contingencies and 8 Per Cent.
as Rate of Return Made — Rates as Requested
Refused — Increase in Rates Authorized.**

REPORT.

On March 12, 1921, the Kansas City Long Distance Telephone Company filed a petition with the Commission praying for an increase in its rates at its Richmond, Missouri, exchange.

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A hearing was duly held in Kansas City on October 11, 1921, before two members of the Commission, and the evidence and arguments were presented and the cause submitted. The city was represented by *Joseph E. Black* and the utility by *A. Z. Patterson*. Thereafter the Commission's accounting department made an audit of the books of the company, a report of which was filed with the Commission, and the respective parties stipulated that the same should be held and considered as evidence in the case.

VALUATION.

A detailed inventory and appraisal had been made by the applicant of all its exchanges in 1914. W. F. Sloan, a valuation engineer, compiled the inventories and appraisals, using average prices from seven to thirteen years immediately prior to 1914 for making up his unit prices. These appraisals included the applicant's Richmond exchange and were made as of May 1, 1914.

W. K. Polk, the applicant's present valuation engineer, made up applicant's Exhibit A offered in evidence, showing the present value of the property. A copy of said exhibit is as follows:

STATEMENT OF VALUE AS OF AUGUST 31, 1921, RICHMOND, MISSOURI, EXCHANGE.

	<i>Cost New</i>	<i>Cost New Less Depreciation</i>
Value of physical property as per appraisal of W. F. Sloan, consulting engineer, as of May 1, 1914, based on pre-war units..	\$41,635 00	\$30,481 00
Additions of 50 per cent. of value to bring units up to date.....	20,817 50	15,240 50
Net additions to plant May 1, 1914, to August 31, 1921.....	7,145 90	7,145 90
TOTAL DEPRECIABLE PROPERTY.....	\$69,597 40	\$52,867 40
Materials and supplies.....	2,200 00	2,200 00
Working capital	1,800 00	1,800 00
Cost of development.....	3,500 00	3,500 00
Going value	4,200 00	4,200 00
TOTAL PRESENT VALUE.....	\$81,297 40	\$64,567 40

It will be noted that the exhibit starts with Sloan's original valuation based on pre-war unit prices, adds 50 per cent. to make the basis present day prices, and then adds additions to plant at cost from the date of the appraisal, adding also materials and supplies, working capital, cost of development and going value, showing present reproduction cost new as of August 31, 1921, of \$81,297.40, and reproduction cost new less depreciation of \$64,567.40.

To those familiar with the policy of the Commission it is not necessary to state that the Commission will not undertake to fix a permanent value of the property at this time. Such a valuation will be delayed until the Commission's engineering department shall have had an opportunity to make an inventory and appraisal thereof and submit the same for the consideration of the Commission. At this time it will suffice for the Commission to adopt a tentative value as a rate base so as to enable it to give temporary relief if found necessary. The evidence submitted by the applicant aids the Commission, however, in arriving at what is a reasonable tentative value to adopt in this case.

After considering all the evidence before the Commission relating to the value, the Commission finds and will assume a tentative value of \$50,000 on all of the property of the applicant used and useful in serving the public at its Richmond exchange, including all elements tangible and intangible. The value assumed amounts to a per station value of \$58.14 on the basis of 860 stations. At Lexington, Missouri, where the Commission made an appraisal and fixed a permanent value, it found a per station value of about \$70.00. That exchange had about 1,200 stations and was valued at \$85,000.

RATES.

The applicant submitted its Exhibit C giving the present and proposed rates and the number of stations each. It was as follows:

KANSAS CITY LONG DISTANCE TELEPHONE COMPANY.

STATEMENT OF ESTIMATED REVENUE FROM RATES IN EFFECT AUGUST 31, 1921, APPLIED TO TELEPHONES OF VARIOUS CLASSES, AND THE ESTIMATED REVENUE TO BE DERIVED FROM THE PROPOSED RATES APPLIED TO THE SAME NUMBER OF TELEPHONES.

RICHMOND, MISSOURI, EXCHANGE.

Business:	Number	Present Rate	Annual Revenue	Proposed Rate	Annual Revenue
Single line, business.....	168	\$24 00	\$4,032 00	*\$39 00	\$6,552 00
Two-party line, business.....	10	18 00	180 00	*33 00	330 00
Business extensions.....	12	9 00	108 00	*12 00	144 00
Business (one-way).....	13	6 00	78 00	*12 00	156 00
<i>Residence:</i>					
Single line, residence.....	559	18 00	10,062 00	*27 00	15,093 00
Single line, residence, within one mile of city limits.....	5	24 00	120 00	*33 00	165 00
Residence extensions.....	18	6 00	108 00	*9 00	162 00
<i>Rural:</i>					
Eight-party line (company- owned).....	36	18 00	648 00	18 00	648 00
One-party line (subscriber- owned).....	10	12 00	120 00	12 00	120 00
Two-party line (subscriber- owned).....	8	9 00	72 00	†6 00	—48 00
Three-party line (subscriber- owned).....	12	7 80	93 60	†6 00	—72 00
Seven-party line (subscriber- owned).....	50	6 00	300 00	6 00	300 00
Eight-party or over (subscriber- owned).....	367	4 20	1,541 40	*6 00	2,202 00
Eight-party line (jointly- owned).....	76	10 20	775 20	*12 00	912 00
Four- to seven-party line (jointly-owned).....	14	12 00	168 00	12 00	168 00
Two-party line (jointly-owned)	14	15 00	210 00	†12 00	—168 00
<i>Miscellaneous:</i>					
Schools.....	3	15 00	45 00	*27 00	81 00
Churches and lodges.....	1	12 00	12 00	*27 00	27 00
Ministers' residence.....	6	12 00	72 00	*27 00	162 00
Additional charge of 25 cents per month to be made for desk tele- phones (estimate 125).....				3 00	375 00
			<u>\$18,745 20</u>		<u>\$27,885 00</u>

Revenue, proposed rates.....	\$27,885 00
Revenue, present rates.....	18,745 20

CALCULATED ANNUAL INCREASE IN REVENUE RESULTING FROM INCREASED RATES.....\$9,139 80

* Proposed increased rates.

† Proposed decreased rates.

It likewise submitted its Exhibit B showing revenues and expenses for a period of one year ending August 31, 1921, which was as follows:

KANSAS CITY LONG DISTANCE TELEPHONE COMPANY.

CONDENSED STATEMENT OF REVENUE AND EXPENSES FOR THE TWELVE MONTHS' PERIOD, SEPTEMBER 1, 1920, TO AUGUST 31, 1921.

Revenue:

Exchange revenue	\$18,585 44
Toll revenue	2,462 14
Miscellaneous operating revenue.....	500 30

\$21,547 88

Less uncollectable revenue.....	97 39
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COLLECTABLE REVENUE \$21,450 49

Expenses and Deductions:

Maintenance	\$4,540 55
Traffic	8,831 06
Commercial	4,332 43
General and miscellaneous.....	2,393 03
Rent deductions	590 81
Taxes (estimated city, county and state).....	850 00
Amortization of debt discount and expense.....	388 14

\$21,926 02

EXPENSES AND DEDUCTIONS.....

Collectable revenue	\$21,450 49
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Expenses and deductions.....	21,926 02
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BALANCE AVAILABLE FOR DEPRECIATION AND RETURN ON

FAIR VALUE OF PROPERTY..... *\$475 53

* Deficit.

The Commission's accounting department in making an audit of the revenues and expenses of this exchange segregated the toll revenues and expenses from the exchange revenues and expenses, and the audit covered a period of nine months ending September 30, 1921. A summary thereof

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is shown by Statement No. 1 of accountants' report, and is as follows:

KANSAS CITY LONG DISTANCE TELEPHONE COMPANY, OPERATING REVENUES AND EXPENSES, NINE MONTHS ENDED SEPTEMBER 30, 1921.

DIVIDED BETWEEN TOLL AND EXCHANGE.

RICHMOND EXCHANGE.

<i>Operating Revenues:</i>	<i>Total</i>	<i>Assigned to Toll</i>	<i>Assigned to Exchange</i>
Subscribers' station revenue.....	\$11,626 87	.....	\$11,626 87
Public pay stations.....	49 75	.....	49 75
Service station.....	2,362 76	.....	2,362 76
Minor rents of exchange plant.....	49 51	.....	49 51
Message tolls.....	1,735 23	\$1,735 23	.....
Messenger service.....	34 90	34 90	.....
Advertising and directory.....	341 82	.....	341 82
TOTAL REVENUES.....	\$16,200 84	\$1,770 13	\$14,430 71
<i>Operating Expenses:</i>			
Maintenance.....	\$3,505 61	\$250 34	\$3,255 27
Traffic.....	6,576 90	1,469 82	5,107 08
Commercial.....	4,149 38	1,293 84	2,855 54
General.....	3,150 38	666 67	2,483 71
Miscellaneous rents.....	838 88	177 67	661 21
Taxes.....	661 14	140 03	521 11
TOTAL.....	\$18,882 29	\$3,998 37	\$14,883 92
NET LOSS FROM OPERATIONS.....	\$2,681 45	\$2,228 24	\$453 21

The yearly equivalent for the net loss for nine months as shown by the accountants' statement for toll and exchange combined is \$3,575.26; for toll alone it is \$2,970.98, and for exchange alone it is \$604.28. It will be noted that when the deficit as shown by the company's Exhibit B is compared with the deficit of the accountants' report of both toll and exchange, that the company's exhibit shows a deficit of \$475.53 per annum and the accountants' report, extended for one year, shows a deficit of \$3,575.26. This difference is due to certain items eliminated by the accountants from operating expenses and to the different method of prorating to the various exchanges the general expenses incurred by the whole system of the applicant. The Commission's accountants apportioned general expenses to the various expense accounts. However, the difference in deficit shown by the company's

exhibit and the accountants' report as to exchange only, with toll eliminated, is negligible in amount. In either event there appears to be a deficit in the operation of this exchange.

To eliminate as much loss as possible the evidence showed that the company in August, 1921, had reduced the wages of its employees, particularly that of its operators, and likewise had reduced the force in the operating department by eliminating one operator. It appeared that this action had affected the service rendered by the company very materially, in that some of the experienced operators had resigned on account of the reduction in salary, thus resulting both in a reduction in force and experience in force. It likewise appeared that there are positions on the local switchboard for five local operators and one toll operator, and that there should be a chief operator in charge to render good service. The company now has four local operators, one toll operator and one chief operator.

The evidence showed that recently the service had been very unsatisfactory and that the same was not up to standard; that to produce satisfactory service it is necessary to have five local operators, one toll operator and one chief operator, and the Commission will require the company to maintain such a force and take such steps as are necessary to provide adequate service for its subscribers. To do this the company will probably be required to incur an additional expense offsetting the saving made by the reduction of the force and salaries in August, 1921.

Referring back to the accountants' report as to revenue and expenses, it is noted that the company had a deficit of \$453.21 for nine months in last year's operations, or a yearly equivalent of \$604.28, without having set up anything for depreciation or return. It appears, therefore, that the Commission will be required to fix such maximum rates as will provide sufficient revenue to take care of the estimated deficit, a sufficient sum for depreciation, surplus and contingencies, and provide a return on the investment.

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The tentative value heretofore assumed is \$50,000. The Commission finds that 6 per cent., or \$3,000 for depreciation, surplus and contingencies, and 8 per cent., or \$4,000, for return on the investment, are fair and reasonable in this case. Therefore, the additional revenue to be provided is as follows:

Deficit	\$604 28
Depreciation, surplus and contingencies.....	3,000 00
Return	4,000 00
<hr/>	
TOTAL	\$7,604 28

The schedule of rates proposed by the applicant is estimated to produce \$9,139.80 additional revenue. It appears that such an additional sum would produce more than a reasonable return on the investment. Therefore, the Commission will not authorize the applicant to file a schedule embodying the proposed rates. The Commission has built up a schedule of maximum rates which it estimates will produce additional revenue to the company in the sum of \$7,293.60, or \$310.68 less than the sum above found to be necessary to provide a fair return. The applicant will be permitted to put in force maximum rates in accordance with that schedule, which is as follows:

<i>Business:</i>	<i>Monthly Rate</i>	<i>Annual Rate</i>
Direct line	\$3 00	\$36 00
Two-party line	2 25	27 00
One-way service	1 00	12 00
Extensions	1 00	12 00
Desk sets, extra.....	25	3 00
Public schools	2 00	24 00
Churches and lodges.....	1 00	12 00
<i>Residence:</i>		
Direct line (within city limits).....	2 00	24 00
Direct line (within one mile of city limits).....	2 25	27 00
For each quarter mile or fraction beyond the one mile limit	25	3 00
Desk sets, extra.....	25	3 00
Extensions	50	6 00

	<i>Monthly Rate</i>	<i>Annual Rate</i>
<i>Rural:</i>		
Class A switching, subscriber owns and maintains all equipment up to the city limits.....	50	6 00
Class B, company owns and maintains all lines and equipment	1 50	18 00
Classes C and D, jointly-owned lines and equipment, the company to maintain main leads and subscriber to maintain the drop wire from main lead and telephone.....	1 00	12 00
Extension gongs, extra		3 00
Extension bells, extra.....		1 80
<i>Moving Charge:</i>		
Instrument moved within the room.....	75	.....
Instrument moved within the building.....	1 25	.....
Instrument moved outside the building.....	2 00	.....

At the hearing it developed that there are a number of different contracts which the company has with rural subscribers. In some instances the company owns part of the line and the subscribers the balance thereof. In other instances the company owns the poles and the subscribers own the wire. Varied agreements exist as to the maintenance of these lines. The situation is in a chaotic condition and has resulted in the lines being left to take care of themselves, with the result that the service has deteriorated and the subscriber is dissatisfied. This matter must be corrected. Good service is essential and necessary. To correct this evil the Commission has fixed three rural rates: first, where the company owns everything, wires, poles and instrument, a rate of \$1.50 per month is fixed and the company shall maintain all of the equipment; second, where the subscribers own and maintain all of the equipment and the rate is 50 cents per month for switching service; third, where there is joint ownership, either in the wires, poles or instruments, and the rate has been fixed at \$1.00 per month and the company is required to maintain the main lead of the lines and the subscriber the instrument and his private drops from the main lead.

It is suggested by the Commission to both the company and the subscribers that in the event all subscribers on any one of the jointly-owned lines desire to come under either the 50-cent switching rate or the \$1.50 rural rate, that they enter into negotiations with the company to acquire or dispose of the equipment, as the case may be, depending upon what class they may desire to enter. In the event an agreement cannot be arrived at in regard to the transfer of equipment, the Commission will undertake to arbitrate the matter if the parties will submit the same to it by stipulation as provided by the statute. The Commission believes that the conclusions herein reached in reference to the rural situation are the business way of dealing with the same. It will eliminate the many different contracts and classify them under three different heads, which are distinct and separate, and responsibility for the maintenance of the lines is fixed under each class. This will eliminate all contentions and will bring about better service, which is sought by all parties.

It appeared in the evidence that a number of the rural lines had been allowed to deteriorate. The Commission having classified the service, it will require the company to immediately repair the lines and equipment, where that responsibility rests upon it, as hereinbefore set out by the Commission. The company will be given until the first day of March, 1922, to complete the repair of the same and render good and adequate service to its subscribers, both rural and urban. After March 1, 1922, if any of the subscribers request the Commission to do so, it will direct its telephone expert to make an inspection of the lines and service of the company.

An order will issue in accordance herewith.

ORDER.

This case being at issue upon the question of the reasonableness and lawfulness of the rates and charges provided for in Kansas City Long Distance Telephone Company's application to increase rates for telephone service at its

Richmond, Missouri, exchange, and full investigation in relation thereto having been made by the Commission at a public hearing held in Kansas City on October 11, 1921, after due notice to all interested parties of the time and place of said hearing, and the Commission having this day made and filed its report herein containing its findings of fact and conclusions thereon, which report is hereby referred to and made a part hereof,

Now, after due deliberation,

It is ordered, 1. That said Kansas City Long Distance Telephone Company be, and it is hereby, authorized to file its schedule in conformity to the views of the Commission expressed in said report, such schedule to become effective on February 1, 1922, upon not less than one day's notice, by filing same in the office of the Commission.

Ordered, 2. That any and all increase in rates herein authorized or permitted shall remain in effect for a period of thirteen months from and after the effective date of the schedule named herein, at the end of which period such increase in rates shall, without further order, cease, and the rates of said company shall then be reduced and restored by said company to the rates now on file or charged by it; *provided*, that the Commission may hereafter by further order continue such increase in rates for another or further period, or otherwise change or modify the rates of said company.

Ordered, 3. That the said company be required to keep a full and accurate account of the revenues and expenses of its exchange at Richmond and file a full and complete report with this Commission at the expiration of one year after the effective date of the authorized schedule, which report shall be in addition to any other reports required by law; and that the Commission fully retain jurisdiction of the parties and subject-matter of this case to continue, change or modify the rates of said company upon the expiration of said period of thirteen months after the effective date of such rates, or at any other time, upon the

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evidence and facts now before the Commission together with such other evidence as the company or any interested party may offer.

Ordered, 4. That the said company is hereby ordered to proceed to increase its operating force to a sufficient number so that during the busy hour of the day there will be on duty five local operators, one toll operator and one chief operator, and that during other hours of the day sufficient force be maintained that will allow and provide for a prompt and satisfactory service being rendered.

Ordered, 5. That the company at once proceed to make such repairs and additions to its plant as will allow a satisfactory and efficient telephone service to be furnished at all times to its subscribers, and that said repairs and extensions be completed on or before the first day of March, 1922.

Ordered, 6. That this order shall be in full force and effect on and after fifteen days from the date hereof, and that the secretary of the Commission forthwith serve a certified copy of the report and order herein upon the interested parties, and that said Kansas City Long Distance Telephone Company, on or before the effective date of the order, notify the Commission in the manner prescribed in Section 25 of the Public Service Commission Law, whether the terms of this order are accepted and will be obeyed.

January 5, 1922.

In re APPLICATION OF THE ASH GROVE TELEPHONE COMPANY
TO INCREASE RATES.

Case No. 2442.

Decided January 9, 1922.

Authorized Increased Rates Made Maximum Lawful Rates.

SUPPLEMENTAL ORDER NO. 2.

It appearing that the Commission, after due investigation and after the company named above had submitted satisfactory evidence that certain of its rates for telephone service, charged at its exchange at Ash Grove, Missouri, were inadequate, unjust and unreasonable, did, by its orders in the above-entitled case, on the twenty-third day of April, 1920, and seventh day of January, 1921, respectively, permit the said company to put certain increased rates into effect for a temporary period, under certain terms and conditions, and,

It now appearing, further, that the company did show by its verified report, on the basis of one year, that its revenues from operation had been sufficient to pay a not unreasonable or high rate of return on the investment, and it appearing that the operating costs of the company have not been materially reduced during the period covered by the above-named report,

Therefore, it is ordered, 1. That the rates allowed by the Commission in the above-mentioned orders be, and the same are hereby, authorized as the maximum lawful rates to be charged for telephone service at the Ash Grove Telephone Company exchange at Ash Grove, Missouri, on and after February 1, 1922, unless otherwise ordered by the Commission.

Ordered, 2. That this order shall be in full force and effect from and after this date.

Ordered, 3. That the secretary of the Commission shall forthwith serve upon the parties hereto a certified copy of this order, and that the company shall within ten days

notify the Commission, in the manner prescribed in Section 25 of the Public Service Commission Law, whether the terms of this order are accepted and will be obeyed.

January 9, 1922.*

*In re APPLICATION OF THE LAFAYETTE TELEPHONE COMPANY
FOR AUTHORITY TO ISSUE STOCK.*

Case No. 3061.

Decided January 12, 1922.

Issue of Stock Authorized.

REPORT.

The Lafayette Telephone Company, under its articles of incorporation, is authorized to issue capital stock to the extent of \$200,000, of which sum \$100,000 is to be common and \$100,000 preferred stock, one-half of which, according to said articles, has been in good faith subscribed and actually paid up in property of the full value thereof,

* Similar orders were issued in the following cases:

<i>Brunswick Telephone Exchange..</i>	(Case No. 1938). December 12, 1921.
<i>Elmira Telephone Company.....</i>	(Case No. 2491). January 4, 1922.
<i>Farmers Telephone Company at Versailles</i>	(Case No. 2441). January 6, 1922.
<i>Aurvasse Telephone Exchange...</i>	(Case No. 2852). January 6, 1922.
<i>Callao Telephone Company.....</i>	(Case No. 2853). January 6, 1922.
<i>La Belle Telephone Construction Company at La Belle and New- ark, and Knox City Telephone Company at Knox City.....</i>	(Case No. 2845). January 9, 1922.
<i>Kingston Telephone Exchange...</i>	(Case No. 2851). January 13, 1922.
<i>Harrison County Mutual Tele- phone Company at Brooklyn and Martinsville.....</i>	(Case No. 2854). January 13, 1922.
<i>Texas County Telephone Company at Houston, Licking and Cabool.</i>	(Case No. 2620). January 23, 1922.

and is in the custody of the persons named as the first board of directors.

The preferred stock shall be entitled to receive out of the surplus or net earnings, and the corporation shall be bound to pay thereon, as and when declared by the board of directors, a dividend at the rate of eight per cent. per annum, payable quarterly. This dividend is cumulative.

The Lafayette Telephone Company was organized and incorporated according to the scheme thus briefly set forth for the purpose of taking over the property and franchises of The Lafayette Telephone Company, the common stock of the one to be issued to the stockholders of the other in proportion to the stock now owned by the stockholders of the other.

In furtherance of this scheme, the new company, and we shall hereafter designate the two companies as the new and the old respectively, makes application to this Commission for authority to issue its 8 per cent. preferred stock in an amount not to exceed \$25,000 of the \$100,000 authorized under the articles of incorporation, for the purpose of selling the same to secure additional capital for making needed additions and extensions to the plant which they have recently taken over from the old company, and for further authority to issue its common stock to the full amount of \$100,000 to holders of stock in the old company as their interest may appear.

The Commission will consider the two proposed issues of stock separately.

The authority of this Commission to approve or disapprove of the issuing of stocks, bonds and other forms of utility companies' indebtedness is not perfunctory, and the application of any such company for authority for such an issue should receive great care and close scrutiny on the part of the Commission, for in passing upon the same they exercise discretionary power of the highest order. The approval by this Commission of such an issue raises a strong presumption that the property to the value of the issue is back of it and devoted to the public use. Regard

must also be had to the fairness of the terms of the issue as it relates to the public. While the Commission cannot be bound in fixing rates to provide sufficient revenue to pay dividends on preferred stock which it may have authorized in a previous order, yet fixed charges necessarily enter into the considerations in such a case.

With these principles to guide it, the Commission will consider first applicant's request as to its issue of common stock.

The affairs of the old company have very recently been the subject of an exhaustive investigation by the Commission for the purpose of fixing rates to be charged by said company. As a basis for such rates, a valuation was made of the property in use by the old and now to be transferred to the new company.

The value of the property, for rate-making purposes, used and useful in the public service, including working capital, going value and all other elements of value, tangible and intangible, was fixed* by the Commission at \$85,000 as of January 1, 1921. This must be taken as the value of applicant's property in all proceedings before this Commission until it is shown that additional capital has been invested. The Commission may not approve a valuation in one proceeding and disregard it in another.

The Company should not issue stock and expect a return thereon for a sum in excess of the value of its property. Our statute governing telephone companies provides that the capital stock of such companies may be increased or diminished as the amount of money, or its equivalent in property, required for the business varies. (R. S. Mo. 1919, Section 10128, Chapter 90, Article 6.) This section means that the value of the company's property required for the business and the amount of its capital stock issued shall be approximately the same.

In view of this statute, this Commission may not grant the applicant permission to issue its common stock for the

* See Commission Leaflet No. 119, p. 1114.

purpose by it expressed to the full amount asked for but may grant it permission to issue its common stock for such purpose to the extent of \$85,000 only. This limit is in accordance both with the law and sound business discretion.

The avowed intention of applicant to issue its 8 per cent. preferred stock in an amount not to exceed \$25,000 of the \$100,000 authorized by its charter for the purpose of sale to secure additional capital for making needed additions and extensions to its plant, is commendable except as to the amount of the dividend. The Commission is fully aware of the unusual conditions existing in regard to the financing of public utilities and the difficulties of obtaining money at comparatively low rates of interest. In view of the value of the plant, an issue of this preferred stock would be a safe investment. The New Jersey Commission very recently refused to approve a bond issue running for thirty years at 8 per cent. interest, basing its objection, in part, upon the proposition, that such an arrangement would create and place upon the consumers an unnecessary burden. (P. U. R. 1921-A, 665.)

While the rate on the preferred stock is high and would not be approved by this Commission at a time when the current rate for money was normal, still, the refinancing of the telephone plant at Lexington and the proposed extensions and additions thereto are essential to the comfort, convenience and business demands of that community, and this Commission is fully aware of the fact that those persons charged with the duty of raising these funds must meet existing conditions.

The Commission feels, however, that the preferred stock, providing for a cumulative dividend of 8 per cent. per annum, payable annually, should not be issued for an indefinite period or for the full life of the corporation. It is willing to grant applicant's request for authority to make the issue for the purpose of enabling it to successfully refinance its affairs at a time when the money market is unsettled and the rate of interest is abnormally high upon

such conditions as will enable the Commission to lower the rate of dividend when the financial affairs of the country have returned to normalcy, and justice to applicant's consumers demands that it be lowered.

In accordance with these views, the Commission will grant the application of the new company to issue its preferred stock in the sum and according to the terms set forth in the application, *provided*; (1) the Commission reserves the power to order all such shares of preferred stock issued under this order called at any time after ten years from the date of its issue for redemption upon payment of \$100 per share and all accrued and unpaid dividends; (2) applicant company shall print upon the face of each certificate of preferred stock issued under this order the proviso that the same is subject to the call of its board of directors, either upon its own motion or upon an order of this Commission, for redemption upon payment to the holder thereof by applicant company of the sum of \$100 per share, together with all accrued and unpaid dividends at any time after ten years from the date of the issue of said stock.

An order will issue accordingly.

ORDER.

Application having been made to the Public Service Commission of the State of Missouri, by the Lafayette Telephone Company for an order authorizing the issuance of its common stock in the amount of \$100,000 and its preferred stock in the amount of \$25,000 and a hearing having been duly held before the Commission, at which hearing it was shown that the authorized capital stock of the aforesaid company is \$200,000, of which sum \$100,000 is to be common and \$100,000 preferred, and that the common stock herein prayed to be issued is for the purpose of purchasing the property and franchises of The Lafayette Telephone Company, and to be issued to the stockholders of the latter company in proportion to the stock now owned by them, and that the preferred stock to be issued is cumu-

lative, bearing 8 per cent. interest per annum, and to be issued and sold for the purpose of securing additional capital for making needed additions and extensions to the plant which they have recently taken over from The Lafayette Telephone Company and it now being the opinion of the Commission:

(1), That the said property and franchises of The Lafayette Telephone Company are of the reasonable value of \$85,000 and that the issue of the common stock of the new company to that amount is reasonably required for the purpose of purchasing property of the old company, and that the issuance of \$25,000 in preferred stock is necessary for the purpose of securing additional capital to make extensions and additions mentioned hereinbefore, and,

(2), That said purposes are not in whole, or in part, reasonably chargeable to operating expenses or income;

Now, therefore, after due deliberation,

It is ordered, 1. That the Lafayette Telephone Company be, and is hereby, authorized to issue its common stock in the sum of \$85,000 only; said stock to be issued and allotted to the shareholders of The Lafayette Telephone Company; each holder of stock in The Lafayette Telephone Company receiving such proportion thereof as the number of his shares of the old company's stock bears to the total issue of such stock.

Ordered, 2. That said company is hereby authorized to issue and sell its 8 per cent. cumulative preferred stock in the sum of \$25,000, to be sold at par or face value and that the money so procured shall be used for the following purposes, and no other:

(a) For making certain additions and extensions to the existing property now purchased by the new company from the old company.

(b) That said preferred stock is to be issued subject to redemption at company's option, either upon its own motion, or upon order of this Commission, at any time after ten years from the date of its issue, upon the payment of \$100 per share, and all accrued and unpaid dividends.

Ordered, 3. That the Commission reserves the power to order all shares of preferred stock issued under this order called for redemption at any time after ten years from

the date of its issue, upon payment by the company of \$100 per share and all accrued and unpaid dividends.

Ordered, 4. That the Lafayette Telephone Company shall print upon the face of each certificate of stock issued under this order the proviso that the same is subject to the call of its board of directors, either upon its own motion, or upon an order of this Commission, upon the payment to the holder thereof by said company of the sum of \$100 per share, together with all accrued and unpaid dividends, at any time after ten years from the date of the issue of said stock.

Ordered, 5. That said company shall keep separate, true and accurate accounts, showing the disposition of all of the stock hereby authorized to be issued, and shall make semi-annual reports to the Commission, showing the disposition and proceeds from sale and such accounts, vouchers and records shall be open to audit and may be audited from time to time by accountants and examiners designated by the Commission for such purpose.

Ordered, 6. That the authority hereby given to issue, sell or exchange the stock herein authorized shall apply only to such stock as is issued, sold or exchanged by said company, on or before December 31, 1922.

Ordered, 7. That this order shall take effect on this date, and, except as provided in the "*Ordered 6*," limiting the duration of the authority to issue such stock hereby granted, continue in force until otherwise ordered by the Commission, and within ten days after service upon it of a copy of this order, said company shall notify the Commission whether the terms of this order are accepted and will be obeyed.

January 12, 1922.*

* On December 28, 1921, an issue of stock in the amount of \$30,000 was authorized for the purpose of taking over the property of the Daviess County Telephone Company whose charter had expired, *In re Daviess County Telephone Company* (Case No. 3197).

In re APPLICATION OF THE SOUTHWESTERN BELL TELEPHONE
COMPANY TO INCREASE RATES FOR SERVICE AT NEW
MADRID.

Case No. 1948.

Decided January 13, 1922.

Authorized Increased Rates Continued in Effect for Further Period.

ORDER No. 4.

It appearing that the Commission, after due investigation, and after the company named above had submitted satisfactory evidence that certain of its rates for telephone service, charged at its exchange at New Madrid, Missouri, were inadequate, unjust and unreasonable, did, by its orders in the above-entitled case, on the twenty-seventh day of January, 1919, the thirty-first day of January, 1920,* and the fifteenth day of December, 1920,† respectively, permit the said company to put certain increased rates into effect for a temporary period, under certain terms and conditions, and,

It now appearing, further, that the company did show by its verified report, on the basis of one year, that its revenues from operation had been sufficient to pay a not unreasonable or high rate of return on the investment, and it appearing that the operating costs of the company have not been materially reduced during the period covered by the above-named report,

Therefore, it is ordered, 1. That the Southwestern Bell Telephone Company, at New Madrid, Missouri, be permitted to continue the rates allowed to be charged, in the above-mentioned orders, for a further period of thirteen months, from February 1, 1922, to March 1, 1923, unless otherwise ordered by the Commission, at the end of which temporary period such increased rates shall cease without further notice, and the rates and charges of said South-

* Noted in Commission Leaflet No. 99, p. 1013.

† Noted in Commission Leaflet No. 110, p. 1856.

western Bell Telephone Company shall then be reduced and restored by it to the rates on file and charged by it previous to the effective date of the first order above mentioned; *provided*, that the Commission may hereafter, by further order, continue such increase in rates for another and further period, or otherwise change or modify such rates and charges, either upon evidence now before the Commission, or which may be offered in this case, and for the purpose of making such changes in said rates the Commission hereby fully retains jurisdiction of this case.

Ordered, 2. That said Southwestern Bell Telephone Company be required to keep a full and correct account of revenues and expenses at its New Madrid exchange, and file a full and complete report thereof with the Commission at the expiration of a twelve months' period from February 1, 1922, which report shall be in addition to any other reports required by law.

Ordered, 3. That this order shall be in full force and effect from and after this date.

Ordered, 4. That the secretary of the Commission shall forthwith serve upon the parties hereto a certified copy of this order, and that the company shall, within ten days, notify the Commission, in the manner prescribed in Section 25 of the Public Service Commission Law, whether the terms of this order are accepted and will be obeyed.

January 13, 1922.

NEBRASKA.

State Railway Commission.

In re INVESTIGATION OF ALLEGED VIOLATION OF CERTAIN PROVISIONS OF THE NEBRASKA STATUTES BY THE GLENWOOD TELEPHONE COMPANY.

Resolution No. 62.

Decided December 15, 1921.

Unauthorized Rates Validated.

FINDINGS.

Effective January 1, 1918, the Glenwood Telephone Company was authorized to publish and collect a certain schedule of rates for each of its 12 exchanges. Among these was Guide Rock, for which exchange a rate of \$1.50 per month for individual business and \$1.00 per month for residence and farm lines was approved. Subsequently the Commission was advised that the Guide Rock exchange had not complied with the order and it was ordered to show cause why it should not be prosecuted under Section 232, Chapter 67, of the Revised Statutes of Nebraska for 1913. Later the Commission learned that this exchange had commenced to comply with the order and the citation to appear and show cause was indefinitely postponed. It was found upon investigation, however, that reasons existed for making further inquiry into the practices of that exchange and the company was required to appear on December 6, 1921, which it did.

The Glenwood Telephone Company is a loosely organized and more loosely conducted corporation, consisting of 12 distinct districts. Each district constitutes an individual unit in the system and is separately managed as to revenues and expenses. The central officers maintain only a supervisory control over the districts. It was disclosed at the hearing that the Guide Rock exchange, which consists of only about 60 subscribers, became heavily involved in debt

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and at a stockholders' meeting, held in October, 1920, it was decided to increase the rate or assessment from \$10.00 per year to \$18.00 per year. The rate of \$18.00 per year was charged until the next stockholders' meeting in October, 1921, at which time it was reduced to \$15.00.

It is stated very frankly by the secretary of the Guide Rock district that the action of the stockholders in changing the rates was taken without any knowledge of the statute requiring approval by this Commission before such changes could be effected. It was also stated that these readjustments were made without informing the central officers of the company. It developed at the hearing, likewise, that so far as the secretary at Guide Rock knew no notice had been given them by the officers of the company of the approval of rates by the Commission in 1918. It is manifest, therefore, that the relationship between the central headquarters and the various districts is more or less casual and without particular authority. It is admitted that this is particularly true with reference to the Guide Rock district because of its location at a considerable distance from headquarters at Blue Hill.

The president and treasurer of the central corporation gave their pledge that hereafter more care will be given to the filing of rates of the various districts and assurance was also given by the secretary of the Guide Rock district that no rates would be changed in the future without the necessary authority. It was suggested that the central officers immediately notify all of the district officers that hereafter any changes in rates, rules or regulations desired by any district must first be reported to and have the approval of the central organization, the central officers in turn to make the application to the Commission for the necessary authority. The officers of the company promise to see that this policy is immediately carried into effect and hereafter maintained.

While there appears to be no good reason why the officers of the district at Guide Rock should not have had information concerning the order of the Commission in 1918, it

was doubtless due to the loose methods attending the operation of the exchange at that point. There is no evidence of intent to violate the law.

It would appear, therefore, that prosecution at this time would serve no good purpose. We are of the opinion, however, that the company should be required by order to issue a notice to all districts as above described. We are also of the opinion that the present rate of \$15.00 per year for all classes of service is reasonable under the circumstances and should be validated.

ORDER.

It is, therefore, ordered, That the Glenwood Telephone Company be, and the same hereby is, directed and instructed to notify the proper officers of each of the districts within its system that hereafter any changes in rates, rules or regulations made by any district must first be reported to and have the approval of the general officers of the company and that they shall in turn make application to this Commission for such order of approval as is appropriate under the circumstances.

It is further ordered, That the rate of \$15.00 per year now being charged for all classes of service at Guide Rock be, and the same is hereby, validated; and that the order of the Commission issued on December 22, 1917, be, and the same is hereby, cancelled and set aside insofar as it applies to rates applicable at Guide Rock.

Made and entered at Lincoln, Nebraska, this fifteenth day of December, 1921.

In re APPLICATION OF THE HAMILTON COUNTY FARMERS
TELEPHONE ASSOCIATION FOR AUTHORITY TO INCREASE
RATES.

Application No. 4167.

Decided December 27, 1921.

**Authorized Increased Rates Continued in Effect for Further Period—
Amount Ordered Set Aside for Maintenance and Reserve for
Depreciation.**

THIRD SUPPLEMENTAL ORDER.

This matter came on for hearing before the Commission in its offices by reason of the fact that the temporary dates under which the company is operating expire by limitation on the thirty-first inst. The original advances granted this company of 25 cents per month for all classes of exchange service were effective May 1, 1920. It has from time to time been permitted to extend those higher rates and asks in this instance that it be given another extension for the period of 1922.

The orders* in this case have never been bottomed upon comprehensive effort to ascertain fair return on a fair value. The company is peculiarly organized in that all farmer subscribers are stockholders and in that its articles of incorporation do not permit dividends. It does, however, make certain rebates to stockholders, which rebates in the original order† we found did not compensate for the cost and investment of each individual stockholder. We therefore permitted the company as a minimum consideration to spend \$2,000 per year from its revenues in any manner it saw fit or as an additional return to the stockholders, if so desired, over and above the rebate allowance. We see no reason to change this conclusion, pending a careful survey of the property. The company's book cost as of October 31, 1921, is \$127,276.12 for fixed property,

* See Commission Leaflets No. 103, p. 646; No. 111, p. 293, and No. 116, p. 175.

† See Commission Leaflet No. 103, p. 646.

against which it has set up a depreciation reserve of \$18,361.10. We do not pass and have not passed on the accuracy of those figures and do not find it necessary under the circumstances. For the first ten months of 1921 the company's financial situation for the year may be summarized as follows:

Revenues:

City subscribers' service.....	\$24,709 22
Farm subscribers' service.....	14,787 62
Switching revenues	200 00
Toll revenues	2,567 57
All other revenues	518 12

TOTAL OPERATING REVENUES.....	\$42,782 53
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Expenditures:

Maintenance and replacements..	\$14,268 91
Reserve for depreciation.....	731 09
Traffic expenses	13,454 63
Commercial expenses	8,300 03

TOTAL OPERATING EXPENSES.....	36,754 66
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Operating income	\$6,027 87
Deductions for taxes and interest.....	1,305 00

PROFIT AND LOSS	\$4,722 87
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From this must be taken five-sixths of the \$2,000 found as the minimum equity in the original order* herein.

Testimony of the secretary is that what with discounts for prompt payment and federal income taxes the year will find the company with a surplus of \$3,200, approximately, after having set apart the \$2,000 as a stockholders' additional return.

As has been heretofore stated in other findings, this company operates with high economy. Its board of directors is made up of farmers and no extravagance is apparently permitted. Its overhead and general office expenses are relatively low. It is apparent that the company could at this time reduce its rates approximately 10 cents per

* See Commission Leaflet No. 103, p. 646.

subscriber, per month. The manager desires to wait until the full advance granted in May, 1920, could be removed. The president of the company is inclined to favor removing a portion of the advance at the earliest moment.

Because the rates are relatively low for this company, the Commission is inclined to let this be a matter of corporate judgment. Under these higher rates for almost two years there has been earned as a surplus about \$7,000. Under the terms of the original order* this is available as a cushion fund to draw against if the the first reduction does not leave sufficient revenue to meet necessary expenses. It is, however, practically all tied up in slow accounts.

We invited the attention of the company to the advisability at the earliest safe moment of making some reductions. President Snider promised to lay the matter before the board of directors. In the meantime it appears equitable and proper to grant a further extension of time of six months at the present rates, with the probability that at the expiration of three months, the company will be in a position to make some reductions.

In the first supplemental order† we authorized the company to increase its maintenance and reserve account to \$18,000 per annum. The showing for the first ten months of 1921 does not indicate that this is excessive, although on a percentage basis it is high. All such funds reflect immediately in a higher grade of service. We believe it proper, however, that in the light of possible reductions in wages and materials the company may be able to reduce this amount in the near future. We will, in this order require a set-up of only \$15,000, but will not interfere with the larger amount if the judgment of the board of directors so runs.

At the hearing in this supplemental application some consideration was given to the level of wages which are not shown to be relatively high. Witnesses for the com-

* See Commission Leaflet No. 103, p. 646.

† See Commission Leaflet No. 111, p. 293.

pany were reluctant as yet to make any wage cuts, although admitting that the time is not far distant when such action could probably be taken.

It is, therefore, ordered by the Nebraska State Railway Commission, That the Hamilton County Farmers Telephone Association be, and it hereby is, authorized to continue its present schedules of rates and rules for a period not beyond June 30, 1922, unless before that date other orders shall be entered.

It is further ordered, That the company shall set aside not less than \$15,000 per annum out of which all maintenance and replacements and accruals of depreciation reserve shall be realized in accordance with the rules of accounting.

It is further ordered, That in all things, except where herein amended, the conditions of the original order and its previous supplements† shall remain effective.*

Made and entered at Lincoln, Nebraska, this twenty-seventh day of December, 1921.

In re APPLICATION OF THE UNION TELEPHONE COMPANY FOR
INCREASE IN RATES.

Application No. 4422.

Decided December 27, 1921.

Decrease in Rates with Company's Approval Because of Loss of Subscribers Authorized — Suspension of All Service at Bloomfield
Authorized by Supplemental Order.

SUPPLEMENTAL FINDINGS.

The original order‡ in this case was entered effective May 1, 1921, authorizing certain increases in rates at the towns of Bloomfield, Wausa, and Crofton where telephone

* See Commission Leaflet No. 103, p. 646.

† See Commission Leaflets No. 111, p. 293, and No. 116, p. 175.

‡ See Commission Leaflet No. 113, p. 1026.

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service is furnished by applicant. Because of the rapidly fluctuating costs of operation and uncertainties as to the future, this order, in the same manner as practically all other orders entered during the war-time period by the Commission in the matter of rates, was made temporary. It terminates by its conditions on December 31, 1921. Applicant asked for a further hearing and for such rates as in the judgment of the Commission should be established in the future and that this hearing be held at Bloomfield for reasons apparent to it.

The rates approved in the temporary order provided increases ranging from 16 to 23 per cent. which were the only increases allowed this company except on switching rates during the war-time pinnacle cost of operation. At Wausa and Crofton the rates were put into effect without disturbance of any kind. At Bloomfield the company lost practically all of its subscribers. It has added a small number of the old subscribers from time to time but during the temporary rate-period practically the entire exchange, involving an investment of more than \$60,000, has been idle. It has cost the company a considerable amount of money, not only in having property which is not earning, but in direct operating expenses in excess of revenues received.

To us at this distance it is difficult to understand the cause of this attitude on the part of subscribers. It is not due to the fact that the rates are too high *per se*. The subscribers were not conversant with the revenues and expenses of the company but were in a position to know what rates were deemed essential in surrounding territory. The only exchange in the immediate territory where the property is of the same character as that of Bloomfield is Randolph where the rates are decidedly higher. At Plainview, with an inferior plant, the rates are slightly lower than those objected to by the Bloomfield subscribers. At Hartington, with quite a different plant, the rates are decidedly lower, that town being almost in a class by itself in northeast Nebraska, for cheapness of service proffered.

The attitude of the subscribers was not due to any unusually radical spirit or temptation to destroy, for the business men of the town have shown no such spirit as that except as to the results they are likely to secure from the attitude they are showing toward this company. The wholesale quitting of service might be due to the fact that the rates are higher than the people can afford to pay. This is probably not the case in spite of some testimony to that effect. It is the only town in the State that has ceased using telephones, although the rates paid are as low at Bloomfield as the average, and the surrounding country shows no indication of a condition of poverty in excess of that in other parts of the State. Nor can we see quite, if it is a question of finances, why it is essential for subscribers to gather in mass meeting in order to ascertain whether as individuals they can afford to pay for telephone service.

We are, therefore, forced to the conclusion that much of the difficulty is a matter of errors in management by the telephone company. In such situations the company's responsibility is its own. The Commission has done its part as required by law.

Considering the entire system as a whole the company has earned in the seven months the temporary rates have been in effect a total of \$14,137.84. Its direct operating expenses in the same time were \$17,773.53. Taxes and interest accrued and other miscellaneous charges added to this deficit, in amount \$2,369.31, leave a loss for the seven months of \$6,005 without dividends. Specifically as to exchanges the company sets forth in Exhibits 1 to 3, inclusive, revenue and expense accounts for the seven months the temporary rates have been in effect, showing that Crofton earned net for dividends \$751.61; Wausa failed by \$64.54 to pay expenses without dividends, and Bloomfield, where the disturbances occurred, failed to pay operating expenses, taxes and fixed charges by \$5,961.36. These figures are subject to some scrutiny. It will be noted that toll revenues, being mainly commissions, are not regular each month but accumulate sharply quarterly. Allowance

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should be made for that because October shows no credit for its toll commission which will appear in later settlements. At Wausa, Chairman Anderson of the committee of protestants pointed out that a year's coal bill had been charged into seven months. This appears to be a legitimate criticism. For the purposes of measuring the effect of a rate, such coal bill should be spread over a year's time, although not necessarily so in the accounting system.

The company has also apparently charged such general expenses as clerical help and managers' salaries on the basis of time spent. Under the peculiar conditions of the seven months this has resulted in the towns of Crofton and Wausa bearing a larger share of such expenses that would normally be true. In measuring a rate, account should be taken of this. For example, officers and clerical help for the seven months cost subscribers at Wausa 31 cents per station, per month; those at Crofton 29 cents per station, per month, and at Bloomfield 14.7 cents per station, per month. In arriving at these figures we have considered switched lines equivalent to one station each.

When all these things are taken into consideration, the situations at Wausa and at Crofton are not as bad as they appear in testimony. In fact, had everything been normal in the territory served by this company there is little doubt but that both Crofton and Wausa would have paid their way, plus a fair return under the rates in effect.

A general impression seems to exist, not only at Bloomfield but throughout the State, that in the exercise of its power of regulation the State has unlimited and arbitrary authority and that it can at will deny public utilities any return wherever in its judgment no return ought to be earned on account of business conditions. No such power exists either in this Commission or in the legislature nor can the power be attempted without the intervention of the courts unless both the State and Federal Constitution are altered. Any of these public utilities however, may voluntarily do what the Commission cannot require it to do. It may forego its dividends. It may even agree to

operate at a loss and pay the difference out of pocket. Where circumstances warrant such proffer, this Commission will not object.

This is the situation of the Union Telephone Company, applicant herein. In filed brief the company has stated its willingness to forego any returns if necessary and to make reductions in operating expenses in an endeavor to weather the storm brought upon it in this unpropitious manner. It proposes to make sharp reductions in the salaries paid its three managers. In the original order * herein we found fault with the level of the pay of the three managers but refused to let it play a part in our conclusions because, at best, the rates approved were reasonable as compared with the rates found necessary for a large number of other companies. We think the company can readily make reductions at these points. It is proposed also to reduce other wages and injustice may result from such program. If wrong is done it is the fault of the people being served who, by their attitude, have made such action necessary.

At Bloomfield there is sharp criticism of the allowance made by the Commission for maintenance and depreciation reserve. This criticism shows on its face that the critics have but little idea of what the words mean. A lawyer in the case added the maintenance and depreciation account to the maximum return authorized in the temporary order and considered it all a return. He may have been speaking for effect, for he is far too well read a man to have any such conclusions. Maintenance is entirely for the use of the subscribers. Depreciation reserve is partly an insurance of continued service and partly a protection to the investment.

The decreases in wages proposed and certain small decreases in cost of materials and prospects of still further decline, make it probably possible for us to authorize the company to set aside 9 per cent. on the original cost of the property as carried on its books for maintenance and

* See Commission Leaflet No. 113, p. 1026.

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depreciation. This may not be sufficient amount and in the light of the experience of a large number of other companies probably will not be. At its option the company may set aside more. If it sets aside only 9 per cent. and that proves to be an insufficient amount, it is only one means by which it writes off a part of its investment and depletes its capital. It may also thereby cause deterioration in service, but at Bloomfield, at least, this cannot be heard as a criticism.

During most of the period of the temporary order the company has maintained twenty-four-hour service at Bloomfield despite the fact that its properties are almost in non-use. We do not think conditions warrant that amount of service. The company will be authorized to reduce the hours when service is offered as in its judgment appears best, merely keeping the Commission notified of the schedule of hours in use and changes from time to time. The rates at Bloomfield were predicated upon service for twenty-four hours each day and more than 600 subscribers. For some time a few subscribers have paid the rate although the amount of service offered by the company has been very limited. This does not appear to us to be equitable to the present subscribers. We will authorize the company from the date of this order to make rebates to all of its subscribers in such amount as to it appears equitable until the exchange has 150 subscribers receiving service, the only conditions imposed in this order being that the rebates be the same in percentage on each class of service and to each subscriber in the class and that the company notify the Commission as to its plan. The Commission may find reason to object to the plan, but unless it does so the filing will be approved automatically.

We deem it proper that hereafter the company make no charge for night calls at either Wausa or Crofton save between the hours of midnight and six A. M.

Without finding that the appended rates are proper rates under all the circumstances, or that the company can earn that which the law says it is entitled to, but wholly

because the company is willing to have its rates reduced and sacrifice a portion of its rights, we will authorize the publication effective January 1, 1922, of the rates which appear in the order below.

SUPPLEMENTAL ORDER.

It is, therefore, ordered by the Nebraska State Railway Commission, that, effective January 1, 1922, the Union Telephone Company of Wausa be, and it hereby is, authorized to publish and collect the following schedules of rates:

<i>Bloomfield:</i>	<i>Gross</i>	<i>Net</i>
One-party, metallic, business.....	\$2 50	\$2 25
One-party, metallic, residence.....	1 75	1 50
Two-party, metallic, residence.....	1 60	1 35
Rural service, grounded.....	1 60	1 35
Switching, per quarter.....	1 45	1 25
<i>Crofton:</i>		
One-party, grounded, business.....	2 25	2 00
One-party, grounded, residence.....	1 65	1 40
Two-party, grounded, residence.....	1 50	1 25
Rural service, grounded.....	1 60	1 35
Switching, per quarter.....	1 45	1 25
<i>Wausa:</i>		
One-party, grounded, business.....	2 25	2 00
One-party, grounded, residence.....	1 65	1 40
Two-party, grounded, residence.....	1 50	1 25
Switching, per quarter.....	1 45	1 25

Desk sets shall be 25 cents per month more than the published rates. Supplemental service of given kind shall be charged as per existing schedules.

It is further ordered, That the company shall set aside for maintenance and depreciation reserve a minimum of 9 per cent. on the original cost of the fixed properties as set forth in the assets statement of the company from time to time.

It is further ordered, That this order shall remain in effect indefinitely, the company to make reports quarterly of receipts and expenditures on regular summary balance sheets.

It is further ordered, That except as specifically amended in this supplemental order the conditions of the original order,* including the operation of gross and net rates, shall remain in full force and effect.

Made and entered at Lincoln, Nebraska, this twenty-seventh day of December, 1921.†

In re APPLICATION OF THE STELLA TELEPHONE COMPANY FOR
AUTHORITY TO INCREASE RATES.

Application No. 4425.

Decided December 27, 1921.

Authorized Increase in Rates Continued in Effect.

FIRST SUPPLEMENTAL FINDINGS.

Under the provisions of the original order‡ of the Commission herein the Stella Telephone Company was authorized and directed to publish and collect a certain schedule of rates, such schedule to become effective April 1, 1921, and to continue in effect until December 31, 1921. The company now earnestly requests a continuance of this rate schedule for a further period of time and in justification of this supplemental application refers the Commission to its monthly reports which reflect the actual experience of the company under the new rate schedule.

* See Commission Leaflet No. 113, p. 1026.

† On January 10, 1922, a supplemental order was issued in the above entitled case which authorized the company to suspend service, both toll and exchange, at its Bloomfield exchange and in territory tributary thereto, such suspension to be subject to review by the Commission at any time upon application of the company or any of the affected subscribers.

On December 29, 1921, a decrease in rates from \$1.35 to \$1.10 per subscriber, per month, was authorized *In re Highline Telephone Company of Orleans* (No. 4554).

‡ See Commission Leaflet No. 113, p. 1040.

A summarized report of the actual experience of the company as to revenues and expenses from April 1 to November 30, together with estimates made by the Commission at the time of the issuance of the order, appears as follows:

	<i>Actual Revenues and Expenses for Eight Months Subsequent to Effective Date of Order</i>		<i>Estimates of Original Order (Eight Months' Basis)</i>
<i>Revenues:</i>			
Service revenues	\$7,708 72		\$7,709 20
Toll revenues	243 76		404 85
Miscellaneous revenues	246 16		.....
TOTAL REVENUES	\$8,198 64		\$8,114 05
<i>Expenses:</i>			
Maintenance allowance .....	.....		\$3,006 67
Actual maintenance expense.....	\$2,641 93		.....
Traffic expense	1,294 25		1,372 09
Commercial expense	2,174 37		2,000 00
Taxes	278 80		86 67
Bad accounts written off.....	515 55		219 81
(The total of \$515.55 represents an accrual of several years.)			
TOTAL EXPENSES	\$6,904 90		\$6,685 15
Return	1,600 00		1,609 69
(Includes interest accrued of \$471.92 for eight months' period, not included in above expenses.)			
TOTAL DEDUCTIONS FROM REVENUES...	\$8,504 90		\$8,285 15
TOTAL REVENUES	8,198 64		8,114 05
NET DEFICIT	\$306 26		\$171 10

It is noted that the estimate of probable revenues made by the Commission varies but slightly from the actual revenues of the company. In the matter of expenses the item of bad accounts written off in amount of \$515.55 is unusual

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in that it represents an accrual of several years, the company having failed to handle this matter at the close of each year's business. The Commission's estimate of expenditures is, accordingly, out of line to this extent. Were it not for this unusual item it appears that the actual legitimate expenditures of the company practically equal the actual revenues of the company. Under such circumstances it does not appear possible at this time to justify a reduction in the rate schedule authorized to this company. As stated in the original order * of the Commission, the schedule of rates which the company is now collecting is somewhat lower than the rate schedule applied by other companies in surrounding territory. The properties are being maintained in first-class condition and the subscribers are enjoying service from a company well managed and apparently highly efficient. In order to continue good service the company finds it necessary to request continuance for a further period of time of the schedule of rates as authorized in the original order * herein. The Commission will reluctantly grant this request with the understanding that as early as the company's showing will permit the rates will be ordered downward.

FIRST SUPPLEMENTAL ORDER.

*It is, therefore, ordered by the Nebraska State Railway Commission, That the Stella Telephone Company be, and the same is hereby, authorized and directed to publish and collect, until otherwise ordered by the Commission, the schedule of rates as set forth in the original * order herein.*

*It is further ordered, That in all other respects the provisions of the original order * herein remain in full force and effect.*

Made and entered at Lincoln, Nebraska, this twenty-seventh day of December, 1921.

* See Commission Leaflet No. 113, p. 1040.

In re APPLICATION OF THE LINCOLN TELEPHONE AND TELE-
GRAPH COMPANY FOR AUTHORITY TO INCREASE RATES.

Application Nos. 3701 and 3959.

Decided December 31, 1921.

**Economic Conditions Considered — Present Increased Rates Continued
in Effect Until Further Order of the Commission.**

SUPPLEMENTAL FINDINGS.

This is an application on behalf of the Lincoln Telephone and Telegraph Company for authority to continue its existing exchange rates, the effective date of which, under the order * last issued by this Commission, expires December 31, 1921. The last order * issued by the Commission under date of June 30, 1921, was the sixth of a series of renewal orders issued by the Commission since November 1, 1918. There have been two increases made during the period which have resulted in additional exchange revenue in the amount of approximately 26 per cent. The application herein is based on a showing for the first eleven months of 1921. This is supplemented also by a showing for the seven months' period from May 1 to December 1, this being extended to cover the period since the last order * went into effect. Hearing was had on this application at which protestants representing three exchanges appeared. A small number of letters and telegrams from other exchanges was received, some of them protesting against any further increase, and others asking if possible that a reduction be made at this time in the existing rates, due to economic conditions.

During the eleven months of 1921 the company earned 5.99 per cent. on its capital obligations and 5.35 per cent. on the book value of the average plant in service during the period. The net earnings for November did not maintain the ratio for the eleven months and represented a net earning of but 4.67 per cent. on the value of the average

* See Commission Leaflet No. 118, p. 860.

plant in service. The less favorable showing for November is due to a falling off in toll revenue and a slight increase in certain of the expenses. It is manifest from this showing that unless conditions give promise of sharply changing for the better the company is not in such position as to withstand a reduction in rates, and this brings us at once to the phase of the subject that has been uppermost in the mind of the Commission and in the minds of the large body of telephone patrons, viz.: Has not the economic and industrial depression resulted in a decline in cost of labor and material sufficient to justify the hope of materially reduced operating costs henceforth? Careful inquiry into this matter was made by the patrons at the time of the hearing. Anticipating such inquiry the company had prepared rather extensive statistical studies covering present conditions. These figures show that while there has been a very slight decline in labor cost and in the prices of materials used in telephone construction and operation, it is so small as to leave the net income practically as it was during the past two years. For instance, in the first eleven months of 1920 the company earned 5.36 per cent. on the average plant in service, whereas we have shown for the same period in 1921 the net income has amounted to 5.35 per cent. on the average plant in service. In other words, the slight decreases in labor and material expenses have been overcome by increases in taxes and by a small falling off in toll earnings. The exchange earnings for the eleven months' period of 1921 have been slightly increased over the same period of a year ago, due to an increase in the number of subscribers.

Reducing the total telephone operating expenses to a per subscriber basis, the record shows that in 1917 these expenses averaged \$1.643 per subscriber per month; in 1918, \$1.749; in 1919, \$2.076; in 1920, \$2.211: and eleven months in 1921, \$2.153. The gross revenue per subscriber increased from \$2.36 in 1917 to \$2.998 in 1920 and \$2.979 in the eleven months of 1921. This comparison, it will be observed, shows the decrease in expenses per subscriber

for the eleven months of 1921 to be less than six cents per month. Reasons for this slight decline are well indicated by the exhibit submitted by the company. For example, the wages paid by the company in the month of November, while reduced to some degree in the spring of 1921, are still approximately sixty per cent. higher than the wages paid all classes of employes in the month of November, 1915. The total amount of wages paid in November, 1915, aggregated \$49,772, whereas the total wages paid in November, 1921 were \$90,652. In connection with the exhibit presenting these figures the company also submits a showing as to the number of men and women employed in November, 1915 as compared to the number employed in November, 1921. In November, 1915, the company had on its pay roll 534 men and 526 women. At that time it owned and operated 45,883 subscribers' stations. In November, 1921, it employed 506 men and 704 women or a total of 1,210. On that date, however, it had 66,028 subscribers' stations in service. In other words, notwithstanding an increase of approximately fifty per cent. in the number of its subscribers served, it employed only 150 additional employes and all but three of these are to be found in the corps of operators. As a matter of fact the men engaged in the maintenance departments decreased from 439 to 413. It is stated somewhat more graphically by saying that for every 1000 telephones there were 23.04 employes in November, 1915, as against only 18.32 in November, 1921. No more convincing evidence could be submitted of the efforts of the company to economize. Since there are no general complaints as to service, it appears that these efforts toward economy have been accomplished without any decrease in efficiency. A comparison of the wages paid by this company to its men employees in the construction and maintenance departments with that of men engaged in like employment in the city of Lincoln shows conclusively that applicant is well under the wages paid by other industries. For instance, its scale for linemen, capable of doing miscellaneous work, is from \$3.50 to \$4.00 per day. The city of Lincoln pays linemen for similar service \$6.00

per day. Groundmen are paid by applicant from \$2.75 to \$3.25 per day, while the city of Lincoln pays \$4.00 per day. A study of the wage schedules indicates that the telephone company can hardly expect to make any substantial reductions until its competitors in the labor field reduce their wages. This is true likewise of the women employed in the operating department.

Prices of materials entering into the operation of a telephone plant have declined only slightly. The company submits an elaborate exhibit covering this matter, which is too extensive to present here. Since the figures are taken, however, from actual purchase made by the company for the period from 1914 down to the present it may be said to accurately portray the conditions in the telephone material market. The company's plant superintendent testified that it is the policy to buy in the open market and take advantage of quantity purchases as well as of any favorable opportunities that may present themselves.

This company is subject to the same increase in taxes as applies to all other properties in Nebraska at the present time. This increase is well indicated by the statement that the company paid per subscriber station in 1914, \$1.1786. In 1921 it has paid per subscriber station \$2.445, an increase of 107.2 per cent. The increase in dollars in the eleven months of 1921 over the same period in 1920 amounts to \$15,183. The reduction made by the Commission in service connection charges, effective December 1, will result in reduced revenue to the company in the future. It is estimated, basing the study on the month of September, 1921, that this reduction will amount to \$953 per month, or a total of \$11,440 for the year.

Were the rates charged by this company at the present time producing a comfortable surplus it would be possible and equitable to require a reduction. Since the revenues it now receives produce a net income barely sufficient to pay the interest on the bonds and the dividends on the stock, it is obvious that any rate reduction is not now justified. Throughout the period of three years during which these increased rates have been in effect the Commission

has maintained a conservative attitude in its estimates of revenues and expenses. In each of the six orders issued the Commission has expressed the hope and the belief that operating costs would shortly begin to decline so that the rates could be reduced. These anticipated reductions have not been realized. The record in this case discloses that the situation is but little, if any, improved and that there is no indication of an immediate decline in costs. In our opinion the company is making every effort to economize and the record in this case shows that it is accomplishing splendid results. Perhaps still further improvement can be made in that direction, although it is evident that the company cannot go so far in reducing expenses as to seriously impair its service. We are of the opinion, therefore, that the existing rates are reasonable under all the circumstances and that they should be continued. We believe, however, that present conditions are so uncertain and unstable as to make it unwise to make the present rates effective for any fixed period, but to leave these open to investigation by the Commission, either on its own motion or upon complaint, at any time.

SUPPLEMENTAL ORDER.

It is, therefore, ordered, That the Lincoln Telephone and Telegraph Company be, and it hereby is, authorized, an emergency existing, to continue to charge and collect the schedules of rates and charges now in effect until the further order of this Commission.

It is further ordered, That all conditions in the original orders * on Application No. 3701 and Application No. 3953, and as modified by supplemental orders† thereto, remain in full force and effect except insofar as they may be legally modified by appropriate action in the meantime.

Made and entered at Lincoln, Nebraska, this thirty-first day of December, 1921.

* See Commission Leaflets No. 84, p. 211, and No. 94, p. 1295.

† See Commission Leaflets No. 86, p. 678; No. 91, p. 386; No. 100, p. 1522; No. 111, p. 305, and No. 118, p. 860.

In re APPLICATION OF THE UPLAND TELEPHONE COMPANY FOR
AUTHORITY TO INCREASE RATES.

Application No. 4211.

Decided December 31, 1921.

**Value Determined—Authorized Increased Rates Continued in Effect—
Dividends Limited to 8 Per Cent. on Value.**

SECOND SUPPLEMENTAL ORDER.

In the original order * herein, upon application of the company, this Commission authorized to the Upland Telephone Company authority to publish and collect a certain increased schedule of rates, the same to become effective July 1, 1920, and terminating December 31, 1920. Under date of December 31, 1920,† after careful consideration, the Commission continued the rate schedule authorized in the original order * until December 31, 1921, the same to terminate at that time unless otherwise ordered by the Commission. Supplemental application is now presented by the applicant requesting authority to continue in effect for a further period of time the present rate schedule.

Applicant states that a further extension of its present schedule is necessary in order that it may pay fair operating expenses, properly maintain its properties, and pay a fair return upon the fair value of the property as found by the Commission. The records of the company have been carefully kept in accordance with the uniform accounting system as prescribed by the Commission and these reports accurately reflect the present financial condition of the company. The company has submitted to the Commission its report of receipts and expenditures for the month of November, taken as a typical month. The exchange receipts of the company are slightly in advance of the Commission's estimate of the probable receipts under the increased rates. This may be due to gradual growth of the properties and additional subscribers. The expenditures

* Noted in Commission Leaflet No 105, p. 1726.

† Noted in Commission Leaflet No. 111, p. 313.

of the company for the month of November approximate very closely the Commission's estimate of probable expenditures. The summarized report for eleven months shows total operating revenues, including toll revenues of \$5,090.57 and total operating expenditures of \$3,499.30, leaving a telephone operating income of \$1,591.27. Other necessary deductions from income of taxes accrued, \$317.35 and interest accrued, \$330, leave a surplus for the eleven months of \$943.92.

Subsequent to the original order * issued herein the Commission has made finding as to the present fair valuation of the properties of applicant company and has authorized an additional capital stock issue whereby the Commission finds the present fair values of the properties to be \$12,080. The company is, of course, entitled under the Commission's finding to earn upon this amount. It is thus noted that if a reasonable return upon the fair values of the properties is to be made the greater portion of the surplus above mentioned will be absorbed. The company's rates are below the average of those collected by exchanges similarly located and rendering a quite similar standard of service. No complaint as to service has been received so the conclusion is reached that the present standard as furnished by the company is satisfactory. The Commission finds that the present rate schedule should be continued for an indefinite period of time and an order will, accordingly, be issued.

*It is, therefore, ordered by the Nebraska State Railway Commission, That the Upland Telephone Company of Upland, Nebraska, be, and the same is hereby, authorized and directed to continue in effect, until further order of the Commission, the schedule of rates authorized in the original order * herein.*

It is further ordered by the Commission, That dividends paid by applicant company herein upon the Commission's finding of the present fair value of the property of \$12,080

† Noted in Commission Leaflet No. 105, p. 1726.

shall not be in excess of 8 per cent. Any surplus remaining after the payment of such dividends shall be held in reserve by the company to be available for emergency purposes.

Made and entered at Lincoln, Nebraska, this thirty-first day of December, 1921.

In re APPLICATION OF THE NORTHWESTERN BELL TELEPHONE
COMPANY FOR AUTHORITY TO INCREASE RATES.

Application No. 4406.

Decided December 31, 1921.

**Present Rates and Surcharges Continued Pending Decision on Main
Application — Economic Conditions Considered — Surcharge to
be Set Aside in Temporary Account — Refund to be
Made if Final Conclusions are Adverse to the
Company.**

On December 1, 1920,* the Commission authorized a horizontal increase in exchange rates of 10 per cent. which was denominated a surcharge, and required that the company carry such increase on its bills as a separate item. In June, 1921,† the surcharge was continued to December 31, 1921. On December 16 applicant presented a new schedule of proposed rates which it desired to have approved for an indefinite period. The proposed rates had the effect in general of merging the surcharge into the regular rates with slight adjustments up and down in most territories, and with sharp adjustments at certain other points.

In support of its application the company submitted evidence of the result of operations for eleven months of 1921, during all of which time the present surcharges were collected. The earnings included charges for service connections, which charges had been amended in a separate order of the Commission effective December 1, 1921.‡ It was shown that the amendments would reduce the company's revenues approximately \$25,000. The company's financial report for eleven months showed a net earning available for interest and dividends of 3.98 per cent.

* See Commission Leaflet No. 109, p. 1424.

† See Commission Leaflet No. 118, p. 865.

‡ See Commission Leaflet No. 121, p. 94.

Objections were made to the increase for the reason that a public utility could not run counter to general business conditions, but must in a period of declining prices and consequent depression recognize such fact, even though in such recognition it should suffer loss either in rate or in property. Objections were also made on the ground that the schedule of rates as now being charged were made without a just regard for costs as between communities, and that some communities were paying more than they should pay, and thereby, other communities were given the undue advantage of comparatively low rates. Complaint was also made that the company was extravagant, that it was paying too high wages, too high officers' salaries and advertising needlessly, and complainants requested that the surcharge should be removed as a recognition of business conditions.

In answer to respondent's request that the surcharge be removed, the Commission found that the evidence as presented was not very strong, and that if the surcharge were removed there was no assurance that it would not have to be put on again or other increases in rates granted, and that it would be unwise to make, at this time, a downward revision of rates to be followed shortly by another upward revision; that full determination of the questions could not be had at the present time, and that in order to give both complainant and respondent opportunity to present their cases decision on the main issue would have to be deferred.

Held: That the matter of economic conditions should have the most thoughtful attention of applicant; that the company could voluntarily do what the Constitution prohibited the State from doing; that it could agree to accept losses due to economic conditions if such acceptance were a necessary thing, but that the State could not require such acceptance; that respondents must not lose sight of the fact that the activities of the Commission in representing the State were inclosed by a high fence built by legislative law and court decisions, and that it was bound by the statutes the same as private individuals were;

That the motions of respondents should be denied and the company authorized to continue to charge the present rates, including the surcharge, until such reasonably brief period as would be required to thoroughly go into the matters raised by respondents and by the Commission;

That the company should set aside into a temporary account the full amount of the surcharges between January 1, 1922, and date of final determination of the cause, and that full refund should be made if conclusions were finally adverse to the company.

SUPPLEMENTAL FINDINGS.

The general rate cases of this applicant have been repeatedly before the Commission since the latter part of

1918 under separate application designations and in repeated considerations under the same application designations.

In brief, the Commission authorized the first increases to this company effective December 1, 1918,* amounting to 10 per cent. horizontal advance. The order was temporary in character although applicant had opposed such limitation and had asked for 20 per cent. increase. Effective June 1, 1919,† certain other increases were granted which were not horizontal in their nature. Previous increases were extended. This order was also temporary in its nature. During the same time certain changes were made in toll rates both by this Commission and by the Postmaster General while he was administering telephone affairs of the nation. Hearings have been had from time to time since in all of which the results of the rate schedules have been carefully measured by the Commission and further temporary extensions have been made. December 1, 1920,‡ for a period of six months, the Commission authorized a horizontal increase in exchange rates of 10 per cent. against the desire of the company which it denominated a surcharge and required that the company carry such increase on its bills as a separate item. In June,§ for reasons which appeared adequate, the surcharge was extended to December 31, 1921. The present hearing is by reason of the limitations on the surcharge fixed by the Commission at both the hearings. In November, 1920, and in June, 1921, the question of certain amendments to toll schedules was carefully considered but conclusions have been held in abeyance by the Commission. These matters are still on its docket.

This brief resume is for the purpose of explaining why the rate schedules of this applicant have been so repeatedly before the Commission. It is recognized that the repeated

* See Commission Leaflet No. 84, p. 240.

† See Commission Leaflet No. 91, p. 395.

‡ See Commission Leaflet No. 109, p. 1424.

§ See Commission Leaflet No. 118, p. 865.

hearings have a tendency to irritate the public by calling attention to the possibility of reductions in costs and all people now desire reductions in costs. It is unfortunate that irritation should be caused by the practice of this Commission in repeatedly bringing up the rate schedules for further consideration, especially when it should be known that such repeated considerations are entirely in the interests of the general public.

In application filed December 16, applicant presents a new schedule of proposed rates which it desires to have approved for an indefinite period. It has grouped all the exchanges in the State into nine zones or groups with four additional groups in the Omaha local territory. The proposed rates have the effect in general of merging the surcharge into the regular rate with certain slight adjustments up and down in most territories and rather sharp adjustments at certain points. If approved the proposed schedules would add to the revenue of the company over what it is now collecting. Apparently anticipating objection to the schedules, the company has asked that if further hearing is essential the surcharge be continued until the conclusion of the hearing.

In support of its application the company presented evidence of the results of operations for eleven months of 1921 during all of which time the present surcharges were collected. These earnings included charges for service connections which have been amended in separate order * of the Commission effective December 1, 1921. The amendments will reduce the company's revenues approximately \$25,000 per annum. The company's financial report for eleven months shows a net earning available for interest and dividends of \$583,736.28. The company lays claim to book value of physical plant averaging for the year 1921, \$15,981,579.54. By simple process of arithmetic it is shown that the net earnings when applied to the average plant in service amount to 3.98 per cent. From this net earning

* See Commission Leaflet No. 121, p. 94.

the company must be prepared to pay its share of the interest on \$30,000,000 of 7 per cent. bonds which cover the property of the Northwestern Bell Telephone Company located in the five States of Minnesota, Iowa, Nebraska, North Dakota and South Dakota, and a proportionate share of whatever dividends can be paid on \$72,000,000[†] of capital stock. The company alleges that this is not a fair rate; alleges further that if no additional increases in rates are provided it will fall far short of that earning which it is claimed the law intends that such utilities shall have. It is further claimed by applicant that its operations are economical; that the increase in the gross selling price of what it has to offer the public has been only 30 per cent. over the pre-war selling price while the increase in its expenses have considerably exceeded this increase in revenue and that it is entirely uncertain as to when these expenses can be reduced.

The notices of the hearing, through no fault of the Commission, gave but little time to respondents to prepare concrete evidence. Such a situation is not fair to respondents but circumstances made it unavoidable, the chief circumstance being the automatic terminating date of December 31, 1921, of the present rates. Hence, respondents had necessarily to confine themselves largely to arguments. We will briefly state their various arguments presented.

(a) Business is in a general state of depression, prices are falling, wages are being reduced in private business and costs generally curtailed; that the farmers are tremendously depressed financially and must be given every possible advantage if they are to successfully weather the storm; and that the company should do what other business is doing, curtail costs, selling prices and take its place in the forefront of the effort to get back to normalcy.

(b) That the schedules of rates as now being charged are made without a just regard for costs as between communities and that some communities are paying more than

[†] Changed by supplemental order to \$42,000,000.

they should pay and thereby other communities are given the undue advantage of comparative low rates.

(c) That the company is extravagant, that it is paying too high wages, spending too much for officers' salaries, advertising needlessly, top heavy with overhead expenses; and that it is making no appreciable effort to fit its organization to the necessities of business conditions.

(d) That the present surcharge should be removed as a recognition of business conditions; that during the next few weeks the merits of the main application which involve permanent rates by groups shall be gone into thoroughly and such rates shall be made thereafter as all the facts shall warrant even though in making such later schedules the rates may again have to be raised if respondents do not establish their contentions as to law, and allegations of fact concerning management are not proven.

Considering now both the testimony of the company and the arguments of respondents:

THE COMPANY'S CASE.

We present here briefly a comparative statement of earnings and expenses of applicant, pre-war and in each of the last two years, these comparisons being only summaries. The figures representing both revenues and expenditures are per station in service per month:

	Year 1914	Ten Months, 1920	Ten Months, 1921
Exchange revenues.....	\$2.05	\$2.423	\$2.80
Toll revenues.....	.73	1.110	.973
TOTAL REVENUES.....	*\$2.821	*\$3.495	*\$3.790
Maintenance expenses.....	\$0.955	\$1.244	\$1.256
Traffic expenses, including operators.....	.540	1.094	1.127
Commercial expenses.....	.244	.398	.346
General expenses, including officers' salaries ...	.087	.144	.133
TOTAL EXPENSES.....	\$1.826	\$2.88	\$2.862
Taxes.....	.148	.277	.239

* Appears so in original.

The company had a surplus on June 30, 1914, of \$1,615,091.68. This surplus had been created through twenty-five preceding years from all manner of sources, including the rates and revenues paid by the public, surplus invested in various ways and its earnings added to the general revenues. It is not capitalized and no dividends are paid to stockholders on that surplus. This surplus belonged to the Nebraska property and certain property in South Dakota worth not to exceed a one-sixteenth of the Nebraska properties. At the end of 1920 this surplus had been reduced to \$1,172,995.40. It had been called on almost every year because the earnings had not been sufficient to pay expenses and fixed charges and the 7 per cent. dividends on the stock. During that period the Federal Government paid almost \$500,000 to this company for the privilege of the experiment of government operation of telephones. That money went into surplus and was drawn to meet deficits. By the end of 1921 the surplus for the property credited to Nebraska will be still further depleted and will not exceed \$1,000,000. As has been stated, this is invested for the benefit of the public and cannot readily be converted into funds to pay operating expenses or dividends.

Stating it only briefly it is quite possible that the showing made by the company as to its net return available for dividends can be subjected to some criticism. Before the absorption of the Nebraska Telephone Company into the Northwestern Bell Telephone Company a year ago there existed in the assets of the Nebraska Telephone Company slightly less than \$1,025,000 of property in South Dakota. There were also earning assets that were not telephone properties exceeding \$4,500,000. These assets are still earning presumably for the Northwestern Bell Telephone Company and the fact that their earnings were to a large degree heretofore credited to Nebraska properties ought not, it seems to us, be lost sight of. On the other hand the company is now measuring its demand to pay dividends on a rate base averaged through 1921 of slightly less than

\$16,000,000, or considerably less than the liabilities before the consolidation. The interest and dividend liabilities against the Nebraska properties prior to the consolidation were approximately \$17,640,000. If these factors are to be considered, and if it is proper to consider them, the actual return on the plant in service in the year 1921 will be about 5 per cent.

These suggestions may not survive such close scrutiny as will be made of them by the Commission, representatives of the public and by the company at the time of the main hearing soon to be held. They are here presented merely in comparing the year 1921 with preceding years which applicant did not do. The suggestions obviously ignore the question whether the book value of plant in service as used by the company in its computations is a proper basis for measuring the rate level.

ARGUMENTS OF RESPONDENTS.

(a) Arguments were presented by respondents to the effect that a public utility cannot run counter to general business conditions but must in a period of declining prices and consequent depression recognize such fact even though in such recognition it shall suffer loss either in rate or in property. This is comparatively new doctrine. It was presented in the case of the *National Live Stock Shippers League et al. v. Atchison, Topeka and Santa Fe Railroad Company et al.*, (63 I. C. C. 116) and forcibly argued. The Interstate Commerce Commission said

"The answer is that the foundations of what is just and reasonable are not set on such shifting sands."

It was again presented in the case of freight rate levels on grain, grain products and hay before the Interstate Commerce Commission last summer (64 I. C. C.). This fact was mentioned by respondents as showing that the Interstate Commerce Commission had measured the necessity for rate reduction by the economic conditions of the growers of grain and hay. If the parallel were to be exact

it would include that the telephone rates for private business which still sells at a considerable advance over pre-war prices should receive another increase in telephone rates; that farm subscribers would be seriously interfered with in continuing their business by reason of the telephone rate; that the extent of the telephone business has been considerably curtailed by reason of the level of the charges; and that extravagant operations of the utility had been freely established or confessed. This argument was used as a basis by the Railroad Commission of North Dakota in denying a rate increase to this same applicant in the State of North Dakota only four months ago. The Federal Court intervened without much ceremony and authorized the company to go ahead and charge such rates as it might propose, restraining the State from interfering.

It may be that there is precedent in law to sustain the contentions of respondents in this respect. In the short time given them to prepare their objections to the application, respondents did not have a chance to fully develop possibilities of law on their side. We have only mentioned certain situations to which we must not be blind in reaching our conclusions. No question exists in our minds that we cannot accept the proposition of law laid down by respondents without giving it most careful consideration.

The matter of economic conditions should have the most thoughtful attention of applicant. This utility can voluntarily do what the Constitution prohibits the State from doing; it can agree to accept a loss due to economic conditions if such acceptance is a necessary thing, but we have yet to know that the State has any such prerogative. Respondents must not lose sight of the fact that the activities of this Commission in representing the State are inclosed by a high fence built by legislative law and court decisions. Not wittingly will the Commission do an illegal thing. It did not make either the Constitution or the statutes, but it is bound by them the same as all private individuals.

(b) The question of whether rates in one town or locality are high or low, as compared to others, both absolutely and with relation to necessary expenses, is one that requires very careful consideration. Respondents recognize this. The Commission has from time to time investigated levels of rates in different exchanges of this applicant, but never a state-wide investigation. Most of the rates, up to the time that the war-time percentage increases were effected, had the approval of legislative sanction, because they ante-dated the year 1907. Arrangements have been made in a preliminary way for full consideration to this objection. Respondents have formed a working committee to represent different localities, which will call on the company for whatever data it desires. A conference between this committee and the company and a representative of the Commission has already been arranged, to perfect the plans for a very thorough hearing on all points which seem to be in doubt.

(c) On the question of extravagance of operation and lack of a proper effort to economize in keeping with the conditions of the times, there was much probing by respondents at the time of the hearing. Respondents could present no evidence, perforce, as they neither had had the time to prepare such evidence nor the opportunity to gain it. This weakness is to be remedied under the arrangements already made. The Commission did present an exhibit which showed, in brief, that at exchanges north of the Platte, as compared with exchanges south of the Platte, which to it appeared reasonably comparable, there was a very decided difference in expenses of operation. Wage levels at exchanges of this applicant were very considerably higher than those of the large company operating south of the Platte. Applicant, during the year 1921, has received revenues very substantially higher than those of the Lincoln Telephone and Telegraph Company, which, in part, is caused by the domination of the Omaha exchange in the applicant's territory. The Commission excluded expenses of the Lincoln and Omaha zones in com-

paring the expenditures of the two large companies, in order that, in its judgment, comparisons might be more accurate. When this is done, it is shown that the maintenance expense of the applicant in September and October of this year were 81.3 cents per month, per station, in service while those of its large contemporary within the State were 52.3 cents. Likewise, traffic expenses, including operators' wages, of applicant were 79.9 cents per month, and those of the contemporary 53.5 cents. Commercial expenses, which include advertising, accounting and collecting, were 38.8 cents per month for applicant, and 16.3 cents for the contemporary. The total operating expenses, excluding return on investment, were for applicant \$2.334 per month, per station, and for the contemporary \$1.456. It was admitted by the Commission's witness that applicant has more extensive and more lucrative toll properties than does the contemporary.

The data presented by the Commission warrant careful analysis and investigation. Respondents urge that the Commission find that the applicant is extravagant and base its denial of a continuance of the surcharge on that finding.

It seems clear that this would be a hasty conclusion. Applicant has had no proper opportunity to rebut the evidence. The Commission did not make comparison of applicant's management with that of any other industry in the same territory disregards whether or not the strict regulation of revenues of the contemporary by this Commission may not have required at costs below what are justified.*

If this company has a right at all times to a fair return on a fair value of its property as it alleges, this right cannot be claimed unless at the same time it can be shown by it at proper opportunity that it is operating both economically and efficiently. Findings in that respect by the Commission must be made most carefully. It is entering

*Appears so in original.

into the details of management and unless such findings are well bottomed they cannot be sustained on review by the courts.

The answers of the company to the testimony of the Commission's accountants, which testimony was submitted for what it is worth, were merely generalizations, as were also their answers on this subject to questions of respondents. The Commission announced that the company would in the main case be expected to defend itself adequately against the charge of extravagance.

(d) Some respondents also urge that the Commission deny a continuance of the surcharge during the period of investigation of all the points raised by the Commission and by respondents, and until the final conclusion on the major application of this company; and that at the conclusion of the main case it fix such rates as are reasonable regardless of whether they mean increases or not. This does not appear to us to be wisely considered. Certainly, if the evidence is not very strong indeed at this time that if the surcharge is removed it will not again have to be put on, or any other increases granted, it would be most unwise to make at this time a downward revision of rates to be followed shortly by another upward revision.

It seems more advisable that this company set up a temporary account into which the surcharge shall be placed so that in case it is finally determined that the surcharge was not essential during the temporary period between January 1, 1922, and the date of final conclusion, and such conclusion shall be sustained if appealed, the full amount of such surcharge shall be returned to them who shall have paid it. The company, as a condition of this order, shall file written acceptance thereof with the Commission.

It follows from all that has been said heretofore that the Commission must deny the motions of respondents and must authorize this company to continue to charge the present rates, including the surcharge, until such reasonably brief period as will be required to thoroughly go into the matters raised by respondents and by the Commission.

It cannot be said at this moment just how long the main case will take to reach conclusions. Much will depend upon the promptness of both the company and of respondents. The Commission will not allow undue delay for the case to reach early determination.

SUPPLEMENTAL ORDER.

It is, therefore, ordered by the Nebraska State Railway Commission, That the Northwestern Bell Telephone Company be, and it hereby is, authorized to continue to collect its present charges and surcharges at all exchanges being operated by it within the State of Nebraska, together with such charges and surcharges as have heretofore been authorized for special service, such continuance to be until the Commission shall have passed on the main application of this company, hearing on which will be set at the earliest practicable moment, following the preparation and presentation of requisite facts and figures.

It is further ordered, That the company shall set aside into a temporary account the full amount of the surcharges between January 1, 1922, and date of final determination of this cause, and that full refund shall be made if conclusions are finally adverse to the applicant.

It is further ordered, That the company shall, as a condition of this order, file acceptance of the conditions of the paragraph above.

Made and entered at Lincoln, Nebraska, this thirty-first day of December, 1921.

In re APPLICATION OF THE COMSTOCK INDEPENDENT TELEPHONE COMPANY FOR AUTHORITY TO PUBLISH INCREASED RATES.

Application No. 4277.

Decided January 11, 1922.

Present Rates Continued and Company Required to Make Application More Definite—Management of Company's Internal Affairs Held not Task of Commission.

SECOND SUPPLEMENTAL ORDER.

Under the terms of the Commission's original order* herein upon application of the company a certain schedule of rates was authorized to the Comstock Independent Telephone Company, effective August 1, 1920, for a period of six months. Supplemental orders of the Commission continued this schedule in effect until December 31, 1921.

Officers of the company have addressed the Commission concerning this application but have failed to state definitely their conclusions as to the company's needs or as to the rate schedule which they regard as necessary for the future. Their statements are vague and indefinite and the Commission is not advised as to what company officials regard as necessary for immediate future needs.

It is not the Commission's task to assume management of the internal affairs of the company, determine questions of policy and reach conclusions as to rate schedules which are necessary. This is the company's responsibility, and while the Commission is entirely willing to confer upon problems of the moment, it refuses to have delegated to it duties which are so obtrusively and manifestly the company's.

Upon proper and definite application from the company the Commission is enabled to make careful study of the company's needs and reach definite conclusions as to rates which are necessary. Accordingly, in this instance the management of the company should give careful thought

* See Commission Leaflet No. 106, p. 333.

and attention to the company's present financial condition and as to its needs for the coming fiscal period. The management are thoroughly familiar, or should be, with the finances of the company and certainly should be able to make an intelligent application to the Commission based upon the past experiences of the company together with such other factors as it might care to consider.

The Commission desires a definite application from the company officials stating specifically such schedule of rates as is regarded proper and necessary, supplemented by such supporting data as is cared to be submitted. When presented to the Commission in this form the questions involved will be given the most careful thought and study.

The rate schedule under which this company is operating which terminated December 31, 1921, will be extended until February 1, 1922, at which time the company will automatically revert to the schedule of rates under which it was operating previous to the original order* herein unless the Commission is advised in a definite and specific way as to what the company regards as the necessary rate schedule.

It is, therefore, ordered by the Nebraska State Railway Commission, That nunc pro tunc, effective January 1, 1922, the Comstock Independent Telephone Company be, and the same is hereby, authorized and directed to continue in effect until February 1, 1922, the schedule of rates authorized in the original order herein, the company to automatically revert to the rate schedule under which it was operating previous to the original order* herein on February 1, 1922, unless previous to the twenty-fifth day of January, this Commission shall have at hand definite and specific information from the company as to the schedule of rates which it regards as necessary for the future, together with such supporting data thereto as the company may care to supply.*

Made and entered at Lincoln, Nebraska, this eleventh day of January, 1922.

* See Commission Leaflet No. 106, p. 333.

In re APPLICATION OF THE WASHINGTON AND WESTERN TELEPHONE COMPANY FOR AUTHORITY TO ISSUE AND SELL COMMON STOCK.

Application No. 4528.

Decided January 14, 1922.

Consolidation of Properties Approved — Issue of Stock Authorized.

FINDINGS.

This application is presented by the Washington and Western Telephone Company of Verdigre requesting authority to issue and sell additional of its common stock in amount of \$6,000. A consolidation of the Washington and Western company and the Verdigre Telephone Company, previously serving the same community, has been effected. This should be accompanied by increased efficiency in service and by reduced operating expenses.

The moneys derived from the sale of common stock as requested are to be used in the purchase of the Verdigre Telephone Company by the Washington and Western Telephone Company. In giving consideration to this application the Commission deemed it advisable that a physical valuation of the properties be made and, accordingly, such a valuation from the engineering department of the Commission is at hand. Such valuation, made in May, 1921, reveals the following cost values:

WASHINGTON AND WESTERN TELEPHONE COMPANY.

Original construction cost.....	\$9,359 42
Depreciated original cost.....	5,991 42

VERDIGRE TELEPHONE COMPANY.

Original construction cost.....	8,274 47
Depreciated original cost.....	4,955 23

TOTAL ORIGINAL CONSTRUCTION COST.....	\$17,633 89
TOTAL DEPRECIATED ORIGINAL COST.....	10,946 70

The annual report of the Washington and Western Telephone Company for the year 1920 sets forth a total fixed investment of \$5,415. The annual report of the Verdigre

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Telephone Company sets forth a total fixed investment of \$8,321.09.

The applicant company has an authorized capital of \$10,000 with present capital stock outstanding of \$3,675. Adding an additional amount of common stock of \$6,000 would make a total outstanding capital stock of \$9,675. In giving consideration to this application the Commission will, of course, regard the consolidated properties as one property and will have in mind the fair value of the property as a whole. It is noted that the report of the Commission's engineer shows a total original construction cost of the two properties of \$17,633.89 and a total depreciated original cost of \$10,946.70. These figures, of course, do not give consideration to going concern value, or factors other than the actual depreciated original cost of the skeleton property.

The Commission's experience has revealed the unsatisfactory and irritable conditions which follow where competing companies are serving the same community. Higher operating costs and usually less efficient service are probable where such a condition exists. Accordingly, the Commission encourages consolidation of properties where the citizens of a community are behind such a move. In this instance the consolidation has been effected through the harmonious efforts of officials of both companies and citizens of the entire community. The application fails to advise definitely as to whether the company has properly complied with the constitutional provision of notice to the stockholders where consolidation of properties takes place. Article 10, Section 3, of the Constitution reads as follows:

"No public utility corporation or common carrier shall consolidate its stock, property, franchise, or earnings in whole or in part with any other public utility corporation or common carrier owning a parallel or competing property without permission of the Railway Commission; and in no case shall any consolidation take place except upon public notice of at least sixty days to all stockholders, in such manner as may be provided by law. The legislature may by law require all public utilities and common carriers to exchange business through physical connection, joint use, connected service, or otherwise."

This application will be authorized subject, of course, to compliance by the company with the constitutional provision above cited before stock is issued or sold, the Commission finding that sufficient property is in existence to protect the issue of stock as requested, together with the present outstanding capital stock of the Washington and Western Telephone Company.

ORDER.

It is, therefore, ordered, That the Washington and Western Telephone Company of Verdigre, be, and the same is hereby, authorized to affect a consolidation of its properties with the properties of the Verdigre Telephone Company, the resulting company to be known as the Washington and Western Telephone Company.

It is further ordered, That, subject to constitutional requirements relative to public notice to all stockholders, the Washington and Western Telephone Company be, and the same is hereby, authorized to issue and sell at not less than par, for cash or its equivalent, additional common stock in amount of \$6,000, making a total outstanding authorized issue of \$9,675.

It is further ordered, That the moneys derived from the sale of stock authorized herein shall be used for the purchase of properties of the Verdigre Telephone Company, any sums remaining to be used by the company for additions and betterments only.

It is further ordered, That reports shall be made to this Commission of sale and disposition of proceeds of these securities when each \$1,000 is disposed of.

Made and entered at Lincoln, Nebraska, this fourteenth day of January, 1922.

In re APPLICATION OF THE REPUBLICAN VALLEY TELEPHONE
COMPANY FOR AUTHORITY TO INCREASE ITS RATE
SCHEDULE.

Application No. 4540.

Decided January 17, 1922.

~~THE COMMISSION~~

Increased Rates Continued in Effect.

SUPPLEMENTAL FINDINGS.

Under urgent request of the management of the Republican Valley Telephone Company March 17, 1921,* for an increase in rates to provide additional necessary revenue, the Commission, after careful investigation, granted temporary rates with a small increase to be applicable, effective April 1, 1921, and to continue until July 1, 1921, which rates were further extended† until February 1, 1922, for the reason that the experimental period did not give the accounting department of the Commission time to work out a forecast justifying a permanent finding. The following statement of the financial condition of the company up to the present time does not encourage the Commission to require the company to return to the old rates:

**REVENUES AND EXPENSES FOR NINE MONTHS SUBSEQUENT TO EFFECTIVE
DATE OF ORIGINAL ORDER * IN APPLICATION NO. 4540, APRIL 1, 1921,
TO DECEMBER 31, 1921.**

Revenues:

Service revenues	\$5,024 37	
Switching revenues	540 13	
Toll revenues	499 00	
Profit on sales of merchandise.....	2 24	
<hr/>		
TOTAL REVENUES		\$6,065 74

* See Commission Leaflet No. 113, p. 1045.

† See Commission Leaflet No. 118, p. 874.

This application will be authorized subject, of course, to compliance by the company with the constitutional provision above cited before stock is issued or sold, the Commission finding that sufficient property is in existence to protect the issue of stock as requested, together with the present outstanding capital stock of the Washington and Western Telephone Company.

ORDER.

It is, therefore, ordered, That the Washington and Western Telephone Company of Verdigre, be, and the same is hereby, authorized to affect a consolidation of its properties with the properties of the Verdigre Telephone Company, the resulting company to be known as the Washington and Western Telephone Company.

It is further ordered, That, subject to constitutional requirements relative to public notice to all stockholders, the Washington and Western Telephone Company be, and the same is hereby, authorized to issue and sell at not less than par, for cash or its equivalent, additional common stock in amount of \$6,000, making a total outstanding authorized issue of \$9,675.

It is further ordered, That the moneys derived from the sale of stock authorized herein shall be used for the purchase of properties of the Verdigre Telephone Company, any sums remaining to be used by the company for additions and betterments only.

It is further ordered, That reports shall be made to this Commission of sale and disposition of proceeds of these securities when each \$1,000 is disposed of.

Made and entered at Lincoln, Nebraska, this fourteenth day of January, 1922.

In re APPLICATION OF THE REPUBLICAN VALLEY TELEPHONE
COMPANY FOR AUTHORITY TO INCREASE ITS RATE
SCHEDULE.

Application No. 4540.

Decided January 17, 1922.

~~REVENUES~~

Increased Rates Continued in Effect.

SUPPLEMENTAL FINDINGS.

Under urgent request of the management of the Republican Valley Telephone Company March 17, 1921,* for an increase in rates to provide additional necessary revenue, the Commission, after careful investigation, granted temporary rates with a small increase to be applicable, effective April 1, 1921, and to continue until July 1, 1921, which rates were further extended† until February 1, 1922, for the reason that the experimental period did not give the accounting department of the Commission time to work out a forecast justifying a permanent finding. The following statement of the financial condition of the company up to the present time does not encourage the Commission to require the company to return to the old rates:

**REVENUES AND EXPENSES FOR NINE MONTHS SUBSEQUENT TO EFFECTIVE
DATE OF ORIGINAL ORDER * IN APPLICATION NO. 4540, APRIL 1, 1921,
TO DECEMBER 31, 1921.**

Revenues:

Service revenues	\$5,024 37
Switching revenues	540 13
Toll revenues	499 00
Profit on sales of merchandise.....	2 24

TOTAL REVENUES	\$6,065 74
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* See Commission Leaflet No. 113, p. 1045.

† See Commission Leaflet No. 118, p. 874.

Expenses:

Current maintenance	\$1,650 17
Depreciation	235 58
Operators' wages	1,349 25
Other traffic	75 30
Manager's salary	651 00
Clerks' salaries	187 50
Rent	112 50
Stationery and printing	112 05
Other commercial expense	362 19
Taxes	199 14
Miscellaneous charges	89 80

TOTAL EXPENSES	\$5,024 48
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Net income before deducting interest and dividend allowance	\$1,041 26
Per cent. net income to capital liabilities of \$23,325 (annual basis)	5.95

The management of the company is convinced that the present increased rates are insufficient. They are, however, making application for a continuance of the present rates and hope by strict economy and the prospects of lower material prices to be able to maintain satisfactory service for their subscribers. The schedule of rates now being charged by the company is as low or lower than at exchanges of like size in surrounding territory. The service is not complained of and the efficiency of the management is well above the average plant of this size.

SUPPLEMENTAL ORDER.

It is, therefore, ordered by the Nebraska State Railway Commission, That the Republican Valley Telephone Company be, and the same is hereby, authorized and directed to publish and collect until further order of this Commission, the schedule of rates set forth in the original order herein.*

Made and entered at Lincoln, Nebraska, this seventeenth day of January, 1922.

* See Commission Leaflet No. 113, p. 1045.

NEW YORK.

Public Service Commission.

In re PETITION OF THOUSAND ISLANDS TELEPHONE COMPANY, INC., UNDER SECTION 101, PUBLIC SERVICE COMMISSION LAW, FOR AUTHORITY TO ISSUE ITS COMMON CAPITAL STOCK; ALSO UNDER SECTION 99 FOR CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY AND AS TO CONSTRUCTION.

Case No. 163.

Decided December 22, 1921.

Issue of Stock Authorized.

ORDER.

Now, therefore, upon the foregoing record,*

It is ordered as follows: 1. That the Thousand Islands Telephone Company, Inc., is hereby authorized to issue \$61,000, par value, of its common capital stock, which may be sold at a price not less than the par value thereof to realize net proceeds of at least \$61,000.

2. That the proceeds of said stock so authorized, which shall not be less than \$61,000, shall be used solely and exclusively for the following purposes:

(a) Organization expense.....	\$1,000 00
(b) For the acquisition of the lines, plant, property, business and assets (other than franchises) of the Thousand Islands Telephone Company of Clayton, New York:	
(1) Stock or proceeds thereof to be given the Thousand Islands company	\$13,964 70
(2) For the discharge and lawful refunding of obligations assumed under the terms of Exhibit C of petition	1,497 67
	<hr/> 15,462 37

* Omitted.

(c) For the acquisition of the lines, plant, property, business and assets (other than franchises) of the Alexandria Bay Telephone Company of Alexandria Bay, New York:

(1) Stock or proceeds thereof to be given to the Alexandria Bay company \$9,920 18

(2) For the discharge and lawful refunding of obligations assumed under the terms of Exhibit D of the petition..... 15,251 34

\$25,171 52

(d) For the purpose of effecting the consolidation of the foregoing properties; and addition to and the construction, completion, extension and improvement of its facilities within the State of New York..... 19,366 11

\$61,000 00

insofar as the same may be applicable, provided:

(1) That the proceeds of such stock shall be applied toward the cost of new construction summarized in Subdivision (d) above only insofar as such new construction is a real increase in the fixed capital of the petitioner as defined by the Uniform System of Accounts for Telephone Corporations adopted by this Commission.

(2) That there shall be no charges to fixed capital on account of engineering services in connection with such construction unless such engineering services shall have been rendered either by other than the regular officers and employees of the corporation or, in a proper case, where such services may have been rendered by certain of such officers or employees under an express assignment to such construction or improvement work.

(3) That if there shall be required for the aforesaid purposes subject to the limitations herein contained, a sum less than the amounts set opposite thereto, no portion of the proceeds realized from the sale of such stock over the actual costs thereof shall be used for any purpose without the further order of this Commission.

(4) That the unit prices contained in Exhibit E of the petition are not intended to be and must not be construed by the petitioner as having been determined upon by the Commission as the actual cost of the property and work to be acquired and done and thus properly chargeable to fixed capital, but are intended and shall be construed only to be a present estimate of the probable cost of such property and work, the actual cost of which must be actual expenditures made as defined by the Commission's Uniform System of Accounts for Telephone Corporations.

(5) That no expenditures from the proceeds of the stock herein authorized for services or expenses incident to the organization of the company shall be charged to fixed capital until the details of such expenditures or proposed expenditures shall have been submitted to and approved by this Commission.

3. That the Thousand Islands Telephone Company, Inc., shall for each six-months' period ending June 30 and December 31, file not more than thirty days from the end of such period a verified report which shall show:

(a) What stock has been sold or delivered during such period.

(b) The dates of such sales or deliveries.

(c) To whom such stock was sold or delivered.

(d) What proceeds were realized from such sales.

(e) Any other terms and conditions of such transactions.

(f) With respect to Subdivisions (a), (b) and (c) of Clause No. 2 of this order there shall be shown in detail the amount of stock or proceeds thereof which has been expended during such period for each of the purposes specified therein.

(g) With respect to Subdivision (d) of Clause No. 2 of this order there shall be shown:

(1) In detail the amount of the proceeds of the stock herein authorized which has been expended during such period for the purpose specified herein, and the account or accounts under the Uniform System of Accounts for Telephone Corporations to which the expenditures for such purpose have been charged, giving all details of any credits to fixed capital in connection with such expenditures.

(2) A summary of the expenditures for such purpose during the period covered by the report.

(3) A summary by the prescribed accounts showing the expenditures during such period.

In reporting under Subdivisions (2) and (3) of Section (g) of this clause there shall be further shown the expenditures of the proceeds of the stock herein authorized to the beginning of the period reported upon and a total showing such expenditures to the end of the period, together with a statement of the balances in the fixed capital accounts as of the beginning and ending of such period.

Such reports shall continue to be filed until all of said stock shall have been sold and delivered and the proceeds expended in accordance with the authority contained herein,

and if during any period no stock was sold or delivered or proceeds expended, the report shall set forth such fact.

4. That the Thousand Islands Telephone Company, Inc., shall open its books in accordance with the requirements of the Uniform System of Accounts for Telephone Corporations and the amount debited to fixed capital shall be distributed between the appropriate sub-accounts as set forth in Schedule V., page 10, of the final report of the accounting division dated December 14, 1921, which on that date was sent to the corporation, and the amounts in other accounts as set forth in Schedule VI., page 11, of said final report, and within thirty days of the service of this order such books shall be opened and a copy of the entry recording the acquisition of such plants, duly verified by the secretary of the corporation, with an explanation of any necessary variation shall be filed with the Commission.

5. That within thirty days after the acquisition herein authorized shall have become effective, complete statements shall be filed with the Commission, duly verified by the respective secretaries or other executive officers, which shall show :

(a) The exact date of such acquisition.

(b) Details of the changes in the accounts of the Thousand Islands Telephone Company and the Alexandria Bay Telephone Company insofar as they record the changes in their properties, assets and liabilities from June 30, 1920, to the actual date of the transfer of the property of these companies to the Thousand Islands Telephone Company, Inc.

(c) Detailed balance sheets of the Thousand Islands Telephone Company and the Alexandria Bay Telephone Company as of the date when the transfer of their property to the Thousand Islands Telephone Company, Inc., is recorded in their accounts.

(d) Detailed balance sheet of the Thousand Islands Telephone Company, Inc., as of such date.

6. That the Thousand Islands Telephone Company, Inc., shall within a reasonable time after the consummation of the acquisition approved in this order, file with the Commission all such annual or other periodic reports as the Commission may be required by law to obtain or which it is empowered by law to exact and shall require, concerning

its operations and financial or corporate transactions or those of the Thousand Islands Telephone Company and the Alexandria Bay Telephone Company during the period subsequent to the date of such report last filed and prior to the effective date for accounting purposes of the acquisition hereby approved.

7. The authority contained in this order is also upon the express condition that the petitioner, the Thousand Islands Telephone Company, Inc., accepts and agrees to comply in good faith with any and all orders heretofore made by this Commission affecting rates and service charged or to be rendered by the Thousand Islands Telephone Company and the Alexandria Bay Telephone Company.

8. That the authority contained in this order to issue stock is upon the express condition that the petitioner accepts and agrees to comply in good faith with the provisions hereof, and before any stock is issued pursuant hereto and within thirty days of the service hereof the company shall advise the Commission whether or not it accepts the same with all its terms and conditions, and such order shall be of no force or effect until such acceptance has been filed.

Finally, it is determined and stated, That in the opinion of the Commission the money to be procured by the issue of said stock herein authorized is reasonably required for the purposes specified in this order and that such purposes are not in whole or in part reasonably chargeable to operating expenses or to income.

December 22, 1921.

In re APPLICATION OF THE WASHINGTON AND WESTERN TELEPHONE COMPANY FOR AUTHORITY TO ISSUE AND SELL COMMON STOCK.

Application No. 4528.

Decided January 14, 1922.

Consolidation of Properties Approved — Issue of Stock Authorized.

FINDINGS.

This application is presented by the Washington and Western Telephone Company of Verdigre requesting authority to issue and sell additional of its common stock in amount of \$6,000. A consolidation of the Washington and Western company and the Verdigre Telephone Company, previously serving the same community, has been effected. This should be accompanied by increased efficiency in service and by reduced operating expenses.

The moneys derived from the sale of common stock as requested are to be used in the purchase of the Verdigre Telephone Company by the Washington and Western Telephone Company. In giving consideration to this application the Commission deemed it advisable that a physical valuation of the properties be made and, accordingly, such a valuation from the engineering department of the Commission is at hand. Such valuation, made in May, 1921, reveals the following cost values:

WASHINGTON AND WESTERN TELEPHONE COMPANY.

Original construction cost.....	\$9,359 42
Depreciated original cost.....	5,991 42

VERDIGRE TELEPHONE COMPANY.

Original construction cost.....	8,274 47
Depreciated original cost.....	4,955 28

TOTAL ORIGINAL CONSTRUCTION COST.....	\$17,633 89
TOTAL DEPRECIATED ORIGINAL COST.....	10,946 70

The annual report of the Washington and Western Telephone Company for the year 1920 sets forth a total fixed investment of \$5,415. The annual report of the Verdigre

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Telephone Company sets forth a total fixed investment of \$8,321.09.

The applicant company has an authorized capital of \$10,000 with present capital stock outstanding of \$3,675. Adding an additional amount of common stock of \$6,000 would make a total outstanding capital stock of \$9,675. In giving consideration to this application the Commission will, of course, regard the consolidated properties as one property and will have in mind the fair value of the property as a whole. It is noted that the report of the Commission's engineer shows a total original construction cost of the two properties of \$17,633.89 and a total depreciated original cost of \$10,946.70. These figures, of course, do not give consideration to going concern value, or factors other than the actual depreciated original cost of the skeleton property.

The Commission's experience has revealed the unsatisfactory and irritable conditions which follow where competing companies are serving the same community. Higher operating costs and usually less efficient service are probable where such a condition exists. Accordingly, the Commission encourages consolidation of properties where the citizens of a community are behind such a move. In this instance the consolidation has been effected through the harmonious efforts of officials of both companies and citizens of the entire community. The application fails to advise definitely as to whether the company has properly complied with the constitutional provision of notice to the stockholders where consolidation of properties takes place. Article 10, Section 3, of the Constitution reads as follows:

"No public utility corporation or common carrier shall consolidate its stock, property, franchise, or earnings in whole or in part with any other public utility corporation or common carrier owning a parallel or competing property without permission of the Railway Commission; and in no case shall any consolidation take place except upon public notice of at least sixty days to all stockholders, in such manner as may be provided by law. The legislature may by law require all public utilities and common carriers to exchange business through physical connection, joint use, connected service, or otherwise."

This application will be authorized subject, of course, to compliance by the company with the constitutional provision above cited before stock is issued or sold, the Commission finding that sufficient property is in existence to protect the issue of stock as requested, together with the present outstanding capital stock of the Washington and Western Telephone Company.

ORDER.

It is, therefore, ordered, That the Washington and Western Telephone Company of Verdigre, be, and the same is hereby, authorized to affect a consolidation of its properties with the properties of the Verdigre Telephone Company, the resulting company to be known as the Washington and Western Telephone Company.

It is further ordered, That, subject to constitutional requirements relative to public notice to all stockholders, the Washington and Western Telephone Company be, and the same is hereby, authorized to issue and sell at not less than par, for cash or its equivalent, additional common stock in amount of \$6,000, making a total outstanding authorized issue of \$9,675.

It is further ordered, That the moneys derived from the sale of stock authorized herein shall be used for the purchase of properties of the Verdigre Telephone Company, any sums remaining to be used by the company for additions and betterments only.

It is further ordered, That reports shall be made to this Commission of sale and disposition of proceeds of these securities when each \$1,000 is disposed of.

Made and entered at Lincoln, Nebraska, this fourteenth day of January, 1922.

In re APPLICATION OF THE REPUBLICAN VALLEY TELEPHONE
COMPANY FOR AUTHORITY TO INCREASE ITS RATE
SCHEDULE.

Application No. 4540.

Decided January 17, 1922.

Increased Rates Continued in Effect.

SUPPLEMENTAL FINDINGS.

Under urgent request of the management of the Republican Valley Telephone Company March 17, 1921,* for an increase in rates to provide additional necessary revenue, the Commission, after careful investigation, granted temporary rates with a small increase to be applicable, effective April 1, 1921, and to continue until July 1, 1921, which rates were further extended† until February 1, 1922, for the reason that the experimental period did not give the accounting department of the Commission time to work out a forecast justifying a permanent finding. The following statement of the financial condition of the company up to the present time does not encourage the Commission to require the company to return to the old rates:

REVENUES AND EXPENSES FOR NINE MONTHS SUBSEQUENT TO EFFECTIVE
DATE OF ORIGINAL ORDER * IN APPLICATION No. 4540, APRIL 1, 1921,
TO DECEMBER 31, 1921.

Revenues:

Service revenues	\$5,024 37	
Switching revenues	540 13	
Toll revenues	499 00	
Profit on sales of merchandise.....	2 24	
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TOTAL REVENUES		\$6,065 74

* See Commission Leaflet No. 113, p. 1045.

† See Commission Leaflet No. 118, p. 874.

visions hereof, and before any bonds are issued pursuant hereto and within thirty days of the service hereof the company shall advise the Commission whether or not it accepts the same with all its terms and conditions, and such order shall be of no force or effect until such acceptance has been filed.

Finally, it is determined and stated, That in the opinion of the Commission the money to be procured by the issue of said bonds herein authorized is reasonably required for the purposes specified in this order and that such purposes are not in whole or in part reasonably chargeable to operating expenses or to income.

January 4, 1922.

In re ORDER OF THE PUBLIC SERVICE COMMISSION, SECOND DISTRICT, REQUIRING TELEGRAPH AND TELEPHONE CORPORATIONS TO FILE REPORTS OF ACCIDENTS.

Case No. 2056.

Decided January 26, 1922.

Order of Commission Requiring Reports of Accidents Rescinded.

ORDER.

The Public Service Commission, Second District, having on September 20, 1910, made an order directing all telephone and telegraph corporations subject to its jurisdiction to file reports of any accident occurring in connection with the operation of properties of said corporation, and it appearing at this time that no good purpose is served by requiring that reports of accidents be filed and it further appearing that reports of all such accidents are now filed with the Industrial Commission,

It is ordered, That the aforesaid order of September 20, 1910, be, and it hereby is, rescinded.

Further ordered, That this order is to take effect as of February 1, 1922.

January 26, 1922.

OHIO.

The Public Utilities Commission.

In re APPLICATION OF THE OHIO BELL TELEPHONE COMPANY
FOR AUTHORITY TO ISSUE NOTES.

No. 2458.

Decided January 6, 1922.

Issue of Notes Authorized.

ORDER.

This day, after due notice to all parties in interest, this matter came on to be heard, and was heard, upon the application of The Ohio Bell Telephone Company, (a corporation duly organized and existing under and by virtue of the laws of the State of Ohio) for the consent and authority of this Commission to issue its two-year, 6 per cent. notes of the principal sum of \$2,675,000, to mature on or before December 31, 1923, and to deliver the same, in refunder, to the holders of applicant's promissory notes of a like principal sum which matured upon the thirty-first day of December, 1921.

The Commission, being fully advised in the premises, finds:

That the applicant now has outstanding promissory notes of the principal sum of \$2,675,000 which matured upon the thirty-first day of December, 1921, and should be paid and discharged or lawfully refunded, and

That the issue and disposition of applicant's two-year, 6 per cent. notes, maturing on or before December 31, 1923, of the principal sum of \$2,675,000 is reasonably required and necessary for the refunding of applicant's aforesaid indebtedness,

and is satisfied that consent and authority for the issue and disposition of such promissory notes should be granted.

It is, therefore, ordered, That said The Ohio Bell Telephone Company be, and hereby it is, authorized to issue

its two-year, 6 per cent. promissory notes, dated December 31, 1921, and maturing December 31, 1923, of the principal sum of \$2,675,000.

It is further ordered, That said notes be issued and delivered, in exchange for and retirement of applicant's present outstanding 6 per cent. promissory notes of the same principal sum, which matured upon the thirty-first day of December, 1921, and for no other purpose whatsoever.

It is further ordered, That, forthwith upon the consummation of such exchange and refunder, the applicant cancel and destroy its said 6 per cent. promissory notes which matured upon the said thirty-first day of December, 1921.

It is further ordered, That the applicant make verified report to this Commission of the issue and disposition of its said promissory notes dated December thirty-first, 1921, and the cancellation and destruction of said promissory notes dated to mature December thirty-first, 1921, pursuant to the terms and conditions of this order.

Dated at Columbus, Ohio, this sixth day of January, 1922.

OREGON.

Public Service Commission.

In re APPLICATION OF THE NEHALEM TELEPHONE COMPANY
FOR AUTHORITY TO INCREASE RATES.

U-F-336 — Order No. 794.

Decided December 31, 1921.

**Operation of Municipal Telephone Plant Without Rental Charge Held
Discrimination Against Tax Payer Not Using Service — Elimination of Competition Recommended — Increase in
Rates Authorized.**

STATEMENT.

This matter is before the Commission on the application of the Nehalem Telephone Company of Vernonia, Oregon, for permission to increase the schedule of certain telephone rates now on file with this Commission, as designated in its Tariff P. S. C. Or. No. 2, on the grounds that said company under the rates prescribed in said schedule is unable to meet its financial obligations.

After due and legal notice to the public generally, and all interested parties, the above-entitled matter came on regularly for public hearing before the Commission, at the town hall in Vernonia, Oregon, on the ninth day of November, 1921, at the hour of 10:15 o'clock A. M., at which time and place witnesses were called, sworn, testified and their testimony taken by reporter for the Commission.

JURISDICTION.

The Nehalem Telephone Company of Vernonia, Oregon, is a corporation duly organized and existing under and by virtue of the laws of the State of Oregon, to conduct and operate a telephone business in Columbia County, Oregon. Its principal office and place of business is Vernonia, Columbia County, Oregon.

This applicant furnishes telephone service generally to the residents and inhabitants of said territory, and in such capacity is a public utility and subject to the jurisdiction of this Commission and the provisions of Chapter 279 of the General Laws of Oregon for 1911 and all acts amendatory thereof and supplemental thereto.

PLANT.

This company's plant consists of several outside lines connecting its subscribers to a switchboard owned by the Rock Creek Telephone Company. The switchboard is located in a general store at Vernonia and is operated by an employee or owner of the store with little, if any, compensation being granted for the service rendered. The record discloses that the municipal government of Vernonia also owns a telephone system which renders telephone service to people within the corporate limits of the city. This service, however, is rendered without any rental charge to the subscribers, and quite naturally retards the development of the Rock Creek and Nehalem telephone companies.

LOCATION.

The city of Vernonia is located some 25 miles or more from a hard surfaced highway or railroad in a very heavy timber district. The country is so sparsely settled that one company economically engineered and managed would render a far more adequate, efficient and satisfactory service than is now being rendered by the three separate organizations which are attempting to serve the community.

SERVICE.

There was some complaint on the part of the patrons relative to the service rendered by the switchboard operator; the record indicates that switching service is rendered subscribers of the Nehalem Telephone Company, the Rock Creek Telephone Company and the municipal organization without charge. Also, that the operator's chief occupation is that of conducting a mercantile establishment, which we

are informed consumes much of his time. Further, it is only natural to assume that any individual engaged in two operations will, when necessity requires, neglect the one wherein his interests or responsibilities are the less important. Therefore, it is not to be expected that service conditions will be materially improved until some arrangement is made which will provide for the undivided attention of a switchboard attendant. With three competing telephone companies operating in such a sparsely settled territory and one company rendering service without charge, we are of the opinion that operating conditions should be improved before a substantial increase in rates is granted. Telephone lines and equipment can not be constructed or maintained without capital and it therefore follows that when the city of Vernonia attempts to render service to the people within its corporate limits without making a direct charge for same, that the expense of the municipal plant must be paid through taxation and results in discrimination against those taxpayers who are not subscribers of the municipal system.

In reality, subscribers of the Nehalem Telephone Company living within the corporate limits of the city of Vernonia are not only paying for service which they receive from the Nehalem Telephone Company, but through taxation, are paying for service for their neighbors who are connected to the municipal lines. Such condition is not only unsound, but directly against the interest of good telephone service, and it appears that the city officials would be doing the community a real benefit if they would assist in the consolidation of these three systems.

EXPENSES.

Notwithstanding the fact that this company has been curtailing expenses by employing a repairman for short intervals when necessity requires, the annual revenue has been inadequate to defray actual operating expenses and provide a reserve for depreciation, aside from any return on the money invested in plant and equipment.

It is apparent from the record herein, that the company is being operated at a loss and it has no reserve on hand from which to draw for replacing the present plant and equipment when same must be retired, due to obsolescence or other natural causes. It is highly necessary to have a telephone company operating in this territory and it is inevitable, owing to the age of this plant, that some needful repairs be reached at an early date if any service is to be maintained.

Therefore, based on the above statement of facts, the Commission makes its findings, as follows:

FINDINGS.

(1) That the subject-matter and the parties to said above-entitled matter are subject to the jurisdiction of the Public Service Commission of Oregon and the provisions of Chapter 279 of the General Laws of the State of Oregon for 1911 and all acts amendatory thereof and supplemental thereto.

(2) That for the benefit of the entire community an earnest attempt should be made to eliminate competition and secure the services of a competent operator for the switchboard, whose entire time will be devoted to the service during office hours.

(3) That as heretofore indicated, the present revenue of this company is inadequate to meet the actual operating expenses, depreciation, taxes and a fair return on the money invested; therefore, the present rates, rules and regulations are found to be insufficient, unreasonable, inadequate and unjustly discriminatory and not such as to furnish a basis upon which to predicate efficient service.

(4) That the fair, reasonable and not unjustly discriminatory rates, rules and regulations to be applied by the Nehalem Telephone Company for the most efficient service that can be rendered under existing conditions in lieu of those now in force and effect are as follows:

Rates:

Per Annum

Rent and maintenance of line, per station.....	\$9 00
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ORDER.

Based upon the above findings, the Commission hereby enters its order, as follows:

It is hereby ordered, That the Nehalem Telephone Company be, and the same hereby is, authorized to discontinue its present rates, rules and regulations, as specified in Tariff P. S. C. Or. No. 2, found to be inadequate and non-compensatory for the service now rendered, and to substitute in lieu thereof the schedule hereinabove in the findings set forth found to be just, reasonable and not unjustly discriminatory.

It is further ordered, That the rates so authorized shall be considered as maximum rates for the service specified and nothing herein shall be construed as preventing the utility from filing additional rates, rules and regulations as occasion may require, for service not so specified and not in conflict with the intent of this or other orders, rules or regulations prescribed by this Commission, and, *further provided*, that they do not introduce unjust discrimination between individual subscribers or classes of subscribers.

It is further ordered, That immediately upon the establishment of the rates herein authorized, the applicant shall file according to law and the rules of the Commission a tariff containing the rates so established together with all other rates, rules and regulations now applicable to the service, and shall cause a copy of that tariff to be posted in a conspicuous place in its main office, and easily accessible for public reference.

It is further ordered, That all other rates, rules and regulations, except as herein set out, shall be and remain as heretofore, and the effective date hereof is January 1, 1922, and it is so ordered.

Dated at Salem, Oregon, this thirty-first day of December, 1921.

SOUTH DAKOTA.

Board of Railroad Commissioners.

In re APPLICATION OF THE MISSOURI VALLEY TELEPHONE
COMPANY FOR AUTHORITY TO INCREASE RATES.

Docket No. 4510.

Decided December 31, 1921.

System Service Ordered Discontinued — Increase in Rates Authorized.

REPORT.

Application is made to the Board by the Missouri Valley Telephone Company for authority to increase telephone rental rates to subscribers at its exchanges at Mound City, Herreid, Pollock and Glenham, and upon its rural party lines connected with such exchanges.

The application states and our records show that the rates in effect at the time of the application covering the several classes of service furnished by the applicant were as follows:

	<i>Per Month Per Telephone</i>
Business, main line.....	\$1 75
Residence, main line.....	1 50
Rural party line.....	1 50
Desk sets, extra.....	25

The company applies for an increase of 25 cents per month, per telephone, on all classes of service.

Hearing was held at Selby, the applicant being represented by *Mr. J. J. Senner*, secretary, and *Messrs. N. J. Amundson* and *J. A. Fenske*, directors. *Mr. M. I. Larson*, a stockholder and former secretary of the company, also appeared and testified.

The Missouri Valley Telephone Company is a corporation with a capital stock of \$25,000, of which \$19,250 has been paid in.

The company operates four small exchanges, at Mound City, Herreid, Pollock and Glenham, together with 10 rural party lines, furnishing service to 305 subscribers, of which 127 are exchange subscribers and 178 rural subscribers. Nine of the rural lines are connected with the exchanges of the applicant company and one line receives switching service at the Mobridge exchange of the Dakota Central Telephone Company. This latter line is not connected with any exchange of the Missouri Valley Telephone Company. All of the exchanges of the applicant company are connected by blank wires which are used for the interchange of service and also for the transmission of toll messages. All exchange subscribers and all rural subscribers except those on the Mobridge line, are afforded a full interchange of service over the company's entire system upon the payment of the rental charge applicable to the class of service furnished. The Board has always sought to discourage the practice of furnishing system service for the reason that it is generally considered poor telephone practice. In this instance such practice clearly results in discrimination against the subscribers upon the Mobridge line. The company owns and operates 200 miles of pole line and 375 miles of wire line, the greater part of which was constructed during the years 1910 and 1911. The records of the company have been poorly kept and it is impossible to determine the property investment with any degree of accuracy. No detailed inventory of the company's plant and equipment has ever been taken and no valuation of the property has heretofore been fixed by the Board. From a careful consideration of the evidence of the witnesses and of the company's records and such other information as is available, we are of the opinion, and find, that for the purposes of this case, \$18,500 is a fair and reasonable value of the property of the company devoted to public use.

The following is a comparative statement of estimated operating revenues based upon the number and classification of subscribers receiving service at the date of the hear-

ing, at the rates now in effect, the rates applied for, and at the rates authorized herein:

	<i>Number Sub- scribers</i>	<i>Present Rates</i>	<i>Rates Applied For</i>		<i>Rates Authorized</i>	
Main line, business, desk type.	33	\$24 00 \$792 00	\$27 00	\$891 00	\$27 00	\$891 00
Main line, business, wall type.	31	21 00 651 00	24 00	744 00	24 00	744 00
Residence	63	18 00 1,134 00	21 00	1,323 00	21 00	1,323 00
Rural	178	18 00 3,204 00	18 00	3,738 00	18 00	3,204 00
Commission on toll messages.		368 80		368 80		368 80
Switching on toll messages...		174 33		174 33		174 33
Miscellaneous		8 30		8 30		8 30
TOTAL OPERATING REVENUES.....		\$6,332 43	\$7,247 43		\$6,713 43	

The fact that the company operates four very small exchanges with an average of 32 subscribers per exchange, tends greatly to increase the ordinary average per station operating expense, and it clearly appears from the evidence that, under the present rates, the company has been operating for a considerable period of time at an actual loss, the operating revenues being insufficient to cover actual operating expenses, taxes, and a reasonable allowance for maintenance and depreciation. No dividends have been paid on the capital stock except the sum of \$993 disbursed during the year 1918.

From a careful consideration of the record in this case and of all the information at hand, the Board finds and determines the following to be a fair and reasonable estimate of the operating expenses of the applicant company for the ensuing year:

Maintenance and depreciation.....	\$1,850 00
Traffic expense	2,916 90
General expense	1,470 00
TOTAL OPERATING EXPENSES.....	\$6,236 90
Taxes	216 26
TOTAL OPERATING EXPENSES AND TAXES.....	\$6,453 16

Deducting from the total estimated revenues at the rates applied for, as shown above, the estimated operating expenses and taxes in the sum of \$6,453.16, the net operating income is shown to be \$794.27, which is equivalent to a

net return of approximately 4.2 per cent. on the fair value of the applicant's property as found herein. If from the total estimated revenues at the rates authorized the estimated operating expenses and taxes are deducted, the net operating income will be \$260.27, which indicates a net return of approximately 1.4 per cent.

From the foregoing statement of facts found, the Board concludes that the necessity for an increase in rates is justified by the record; that the rates applied for should be approved, with the exception of the rate for rural party line service. A rural party line rate higher than \$1.50 per month, per telephone, when compared with such rates for like service in other territory, under similar conditions, does not appear warranted. We are further of the opinion, and conclude, that the applicant company should discontinue the practice of furnishing so-called system service to any of its subscribers; that the service furnished exchange subscribers should be limited to an exchange area comprising the subscribers of such exchange and of the rural lines connected therewith; that rural subscribers should be furnished service at one exchange for the rental rate quoted below for rural party line service, and that the subscribers of such line as desire two exchange services, should be given connection with such second exchange, as a majority of such subscribers may desire, at an additional charge of \$1.50 per year, per telephone; that all intercommunication between exchange areas should be treated as toll service and a proper message charge made therefor. Upon the restriction of the service as indicated and the imposition of a message rate upon business between exchange points, considerable revenue will accrue to the company. From the record we are unable to determine with any exactness the amount that will so accrue, but we are satisfied that this additional revenue, together with the revenue derived from the increased rates herein authorized, will be sufficient to meet the requirements of the company.

We further conclude that an order should be entered in this proceeding, authorizing the Missouri Valley Telephone

Company to establish, file and put into effect, net telephone rental rates covering the various classes of service furnished at its exchanges at Mound City, Herreid, Pollock and Glenham, and upon the rural lines operated by the company, not to exceed the following:

	<i>Per Month Per Telephone</i>
Business, main line.....	\$2 00
Residence, main line.....	1 75
Rural party line.....	1 50
Desk sets, extra.....	25

Said schedule of rates to be effective from and after January 1, 1922; exchange rates to be payable monthly in advance and rural party line rates to be payable quarterly in advance; that permission should be granted the applicant to bill all subscribers in an amount 25 cents per month, per telephone, in excess of the net rates for exchange and rural service quoted above, from which a discount of 25 cents per month, per telephone, should be allowed where the exchange rental is paid monthly in advance on or before the fifteenth day of the current month, and from which a discount of 25 cents per month, per telephone, should be allowed where the rural party line rental is paid quarterly in advance on or before the last day of the first month of the current quarter.

Done in regular session at the city of Pierre, the Capital, this thirty-first day of December, 1921.

ORDER.

On this date the Board having completed its investigation and having made and filed its report containing its findings of fact and conclusions thereon, a copy whereof is hereto annexed, hereby referred to and made a part hereof, and being fully advised in the premises and sufficient cause for this order appearing,

It is, therefore, ordered, That the Missouri Valley Telephone Company be, and it is hereby, authorized to establish, file and put into effect, net telephone rental rates

covering service furnished at its exchanges at Mound City, Herreid, Pollock and Glenham, South Dakota, and upon the rural lines operated by said company, not to exceed the following:

	<i>Per Month</i>
	<i>Per Telephone</i>
Business, main line.....	\$2 00
Residence, main line.....	1 75
Rural party line.....	1 50
Desk sets, extra.....	25

That said schedule of rates shall be effective from and after January 1, 1922; exchange rates to be payable monthly in advance and rural party line rates to be payable quarterly in advance.

It is further ordered, That permission be, and the same is hereby, granted the said Missouri Valley Telephone Company to bill all subscribers in an amount 25 cents per month, per telephone, in excess of the net rates for exchange and rural service quoted above, from which a discount of 25 cents per month, per telephone, shall be allowed where the exchange rental is paid monthly in advance on or before the fifteenth day of the current month, and from which a discount of 25 cents per month, per telephone, shall be allowed where the rural party line rental is paid quarterly in advance on or before the last day of the first month of the current quarter.

December 31, 1921.

WASHINGTON.

Department of Public Works.

In re ADOPTION OF UNIFORM SYSTEM OF ACCOUNTS FOR TELEPHONE COMPANIES.

No. 5251.

Decided October 31, 1921.

Uniform System of Accounts for Telephone Companies Adopted.

ORDER.

The Department of Public Works hereby adopts as uniform system of accounts for telephone companies the following uniform system of accounts prescribed for telephone companies by the Interstate Commerce Commission:

For telephone companies having average annual operating revenues exceeding \$250,000, which shall be considered Class A companies, and for those having average annual operating revenues exceeding \$50,000 but not more than \$250,000, which shall be considered Class B companies, the uniform system of accounts entitled Uniform System of Accounts for Telephone Companies as Prescribed by the Interstate Commerce Commission in Accordance with Section 20 of the Act to Regulate Commerce, of the first issue, Class B companies to be governed as to the primary accounts to be kept by the instructions contained in the sixth paragraph on page nine of the pamphlet containing said uniform system of accounts.

For telephone companies having average annual operating revenues not exceeding \$50,000, the uniform system of accounts entitled Uniform System of Accounts for Telephone Companies, Class C, Prescribed by the Interstate Commerce Commission in Accordance with Section 20 of the Act to Regulate Commerce of the issue of 1915, except that part of the instructions contained in Section one on page nine of the pamphlet containing said uniform system

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of accounts, relating to the establishment of a Class D for telephone companies having average annual operating revenues of \$10,000 or less, shall be disregarded and the uniform system of accounts prescribed for Class C companies shall be considered to apply to all companies having average annual operating revenues not exceeding \$50,000.

Therefore, it is ordered, That from and after January 1, 1922, all telephone companies operating in the State of Washington keep their accounts in accordance with the uniform system of accounts prescribed for their respective classes, except as hereinafter provided.

The instructions contained in Account 100, Fixed Capital Installed Prior to January 1, 1913, of the uniform system of accounts prescribed for Classes A and B companies, and Account 290, Plant and Equipment in Service January 1, 1915, of the uniform system of accounts prescribed for Class C companies, shall be disregarded by companies which have not heretofore kept their accounts in accordance with such uniform system and the accounts named shall contain the ledger value of fixed capital or plant and equipment in service January 1, 1922.

Witness the Department of Public Works of Washington this thirty-first day of October, 1921.

WEST VIRGINIA.

Public Service Commission.

In re APPLICATION OF THE FARMERS' TELEPHONE COMPANY
FOR AUTHORITY TO CHANGE RATES.

Case No. 1207.

Decided January 9, 1922.

Increase in Rates Denied.

ORDER.

This day this case came on to be finally heard upon the application of Farmers' Telephone Company for authority to increase its telephone rates at Van Voorhis, West Virginia; upon notice of said application, given as required by the order made herein on the twenty-eighth day of February, 1921, and upon a statement, duly verified by affidavit, showing the investment cost and value of applicant's property devoted to the public service and its income and operating expenses for the calendar year 1920; upon consideration of all whereof, the Commission doth find:

(1) That the applicant is a public service utility, and owns and operates a telephone system located partly in Monongalia county, West Virginia, and partly in Fayette and Green Counties, Pennsylvania; that the book value of its entire property is \$7,155; that the value of that portion of applicant's plant situate in West Virginia is \$1,192.50; that its gross income from the entire property, for the calendar year 1920, was \$6,789.71, and its total operating expenses \$5,825.54; that its net earnings from the entire property was the sum of \$964.17; and that the net earnings assignable to its West Virginia property was \$160.70.

(2) That applicant's net earnings from the entire property, for the calendar year 1920, were equal to a return of about 13½ per cent. upon the value of its entire property,

as shown by said statement, and that its net earnings of \$160.70, assigned to that portion of its property located in West Virginia, are equal to a return of about 13.7 per cent. upon \$1,192.50, the value of applicant's property located in West Virginia, as shown by said statement.

And the Commission being of opinion that the net earnings as shown by said statement for the calendar year 1920, afford the applicant sufficient revenue to pay operating expenses and taxes and a reasonable return upon the fair value of its property and a reasonable allowance for depreciation, and no further evidence having been offered by the applicant in support of said application,

It is, therefore, ordered, That the increase in rates sought for herein, be, and the same is hereby, refused, and said application dismissed.

January 9, 1922.

WISCONSIN.

Railroad Commission.

In re APPLICATION OF THE WISCONSIN TELEPHONE COMPANY
FOR AUTHORITY TO PURCHASE THE TELEPHONE EXCHANGE
PROPERTY AT SUPERIOR OWNED AND OPERATED BY THE
PEOPLES TELEPHONE COMPANY.

U-2533.

Decided December 23, 1921.

**Value Determined — Rates Established to be Applied after Purchase
and Unification of Properties — Amortization of the Value of
Discarded Property not Approved.**

The Wisconsin Telephone Company filed an application in which it asked for authority to purchase the telephone exchange property located at Superior and owned by the Peoples Telephone Company, to unify the service at Superior, and to place in effect a schedule of rates for such unified service.

The Commission took appraisals of the property of the Peoples Telephone Company and of the Wisconsin Telephone Company, as made by its engineers in 1909, and added thereto the cost of additions made from that date up to and including the year 1920, and found the value of the Peoples company to be \$211,866, and further found the value of the property to be discarded upon consolidation, to be \$93,000, so that the value to be added to the Wisconsin Telephone Company's property upon consolidation would be \$104,866.

The Commission further found that the value of the Wisconsin Telephone Company's present plant, based upon the 1909 valuation brought down to December 31, 1920, was \$396,977, to which should be added additions made in 1921 and an apportionment of the Milwaukee general office and stores, making a total value of \$517,925; that after the value of the property of the Peoples company was added the total exchange property of the Wisconsin company in the city of Superior would be \$622,791; that the annual requirement for depreciation and return upon this valuation would be \$80,962.83 based upon an 8 per cent. return, and a 5 per cent. rate for depreciation.

The Wisconsin company claimed that in addition to the revenue requirements stated above, the revenues should be sufficient to provide for the amortization of the value of the property to be discarded due to unification over a period of five years, which would require additional revenue of approximately \$20,000 a year in order to meet this amortization

charge. The Commission was of the opinion that this charge was not warranted under the circumstances, and that the Wisconsin company should not acquire the property at a price which would make such a procedure necessary.

The city's representative contended that no change should be made in rates until after complete unification of the property, and only at such time as it should be definitely determined what the operating expenses would be under the changed conditions. The Commission was of the opinion that there might be some merit to the city's contention if the financial results of the operations of the two systems had been more favorable in the past, and if both companies had earned on the average anywhere near a fair return during the past years, but that consideration should be given to the fact that both companies according to their operating statements had been and were in such condition that a substantial increase in rates would be justified on the part of each, even though there were no consolidation of service.

The Commission further found that the annual requirements for operating expenses and taxes of the unified system would amount to \$124,394, and the requirements for depreciation and return would amount to \$80,962, making total requirements of \$205,356; that the gross revenues under the rates proposed by the Wisconsin company would amount to \$222,052, which was somewhat larger than was necessary; that a modification of the proposed rates was therefore justified.

Held: That the rate schedules of the Wisconsin Telephone Company and of the Peoples Telephone Company in the city of Superior and territory contributory thereto, may be discontinued, and that the Wisconsin Telephone Company should be authorized to apply the following schedule of monthly rates upon unification of the service: business, one-party, unlimited, \$6.00, two-party, \$5.00, four-party, \$4.00, extension, \$1.00; residence, one-party, unlimited, \$2.75, two-party, \$2.25, four-party, (full selective ringing) \$2.00, extension, wall or desk, 75 cents; to which should be added 40 cents per month for each one-eighth mile of line or fraction thereof to stations located outside of premises; rural rates for subscribers connected with rural line, within 6 miles from central office, \$2.25 with \$3.00 per annum additional for each mile or fraction thereof beyond the 6-mile limit; also other rates and charges as set forth at length in the order herein entered.

OPINION AND DECISION.

There was filed with the Railroad Commission of Wisconsin on June 21, 1921, an application by the Wisconsin Telephone Company showing that the Wisconsin Telephone Company and the Peoples Telephone Company both own

and operate telephone exchange systems in the city of Superior, Douglas County, and that such companies are public service corporations within the meaning of Section 1753-1 of the laws of Wisconsin; that the telephone exchange of the Peoples Telephone Company has been operated for a number of years in competition with the telephone exchange of the Wisconsin Telephone Company, the petitioner in this proceeding, and that such competitive operation of these two telephone systems has been productive of a financial loss to both companies and of inconvenience to the public, and that it, therefore, appears desirable and advantageous for the public and for the two companies that the telephone properties of the Peoples Telephone Company be sold to and purchased by the Wisconsin Telephone Company, and utilized as far as may be practicable by the purchaser.

The petitioner further states that the schedules of rates now in effect at the telephone exchanges of the Wisconsin Telephone Company and of the Peoples Telephone Company, serving the city of Superior and vicinity thereof, are not productive of sufficient revenue to permit of an efficient and adequate operation and maintenance of such properties, to provide a proper depreciation reserve and to pay a reasonable interest upon the investment; that it appears just that, after the purchase of the Peoples Telephone Company system and after the combination as far as practicable with the petitioner's exchange system, a schedule of rates set forth in detail in Exhibit B should be adopted, approved, and made effective for unified telephone service in the city of Superior and tributary area.

Application of the petitioner further shows that a tentative understanding has been reached between the Peoples Telephone Company and the Wisconsin Telephone Company under which the telephone exchange properties of the Peoples Telephone Company located in the city of Superior and vicinity thereof will be purchased by the Wisconsin Telephone Company for a consideration of \$296,927; such

purchase to be made subject to the approval of the Commission. It is claimed by the petitioner that this purchase price is reasonable and that this sale and purchase are reasonably necessary for the purposes of the petitioner and from the standpoint of public convenience and necessity.

The petitioner prays that this proposed sale and purchase and the proposed schedule of rates for telephone exchange service in the city of Superior be authorized and approved and that the Commission make such other or further order as may be just, proper and necessary.

In an answer filed by the city attorney of Superior, it is admitted that the operation of the two telephone systems has in many cases been an added expense and an annoyance to the city and its inhabitants; it, however, denies that the present rates are inadequate or that they have been productive of financial loss to the two companies in question. It is alleged in the city's answer upon information and belief, that the present rates, tolls and charges, even under the added expense of owning and operating two complete systems and properties, are adequate and sufficient and in some cases excessive, and that under such consolidation and largely increased income they will be excessive.

It is further alleged upon information and belief that officers, stockholders and persons connected with the Wisconsin Telephone Company for the purpose of eliminating competition have already bought all the stock of the Peoples Telephone Company and for such purpose paid therefor, on the basis of its value and earnings at the rate and price of about \$180 per share, and that such price based on its present earnings was a reasonable and fair price, and that such purchase was made for the purpose of wiping out such competing business to the petitioner at a large profit and excessive price for the purpose of use as a basis for making this application for an increase in rates based upon such price rather than upon the appraised value of the property actually used and useful for the public service as provided by law.

The answer of the city further states that a large part of the plant of the Peoples Telephone Company when consolidation and unification of service is effected will be useless and that the value of such displaced property should not be considered as a basis for rate-making; that the expenses of operation for combined service will not greatly exceed the expense of operating the petitioner's present system and that such consolidation will add largely to its income and profits.

The present rates for the principal classes of service of the Wisconsin Telephone Company and of the Peoples Telephone Company are set forth in the following statement:

PRESENT RATES.

<i>Class of Service</i>	<i>Net Per Year</i>	
	<i>Wisconsin Telephone Company</i>	<i>Peoples Telephone Company</i>
Business, one-party	\$36 00	\$36 00
Business, two-party	33 00	30 00
Business, four-party	30 00	24 00
Business extension	7 20	10 00
Residence, one-party	30 00	*24 00
Residence, two-party	24 00	*20 04
Residence, four-party	18 00	*16 08
Residence extension, desk.....	7 20	6 00
Residence, extension, wall.....	6 00	.....
Rural, within 7 miles of central office.....	18 00	24 00
Roadway service (switched).....	None	6 00

* Desk sets, \$2.00 per year, extra.

The petitioner in its application asks that following a consolidation of properties and unification of service, it be permitted to place in effect a detailed schedule of rates among which the following are the principal classes:

PROPOSED RATES.

	<i>Net Per Month</i>
Business, one-party, unlimited service.....	\$6 00
Business, two-party, unlimited service.....	5 00
Business, four-party, unlimited service.....	Discontinued
Business extension, plus 40 cents per month for each one-eighth mile or fraction thereof on stations located outside of premises	1 00
Residence, one-party, unlimited service.....	3 25
Residence, two-party, unlimited service.....	2 75
Residence, four-party, unlimited service.....	2 25
Residence extension, wall or desk, plus 40 cents per month for each one-eighth mile of line or fraction thereof on stations located outside of premises.....	75
Rural subscribers within 6 miles of office.....	2 25
For each mile or fraction thereof beyond, net, per year....	3 00
Roadway service (switched).....	1 25
Additional charge for furnishing receivers and transmitters.	

The other sections of the proposed rate schedule cover rates and charges for hotel service, private lines, spring jacks, and miscellaneous extra equipment.

A hearing in the matter was held at Superior August 5, 1921, at which the following appearances were entered: *J. F. Krizek* and *F. M. McEniry* for the Wisconsin Telephone Company; *T. L. McIntosh*, city attorney, and *R. M. Risser*, assistant city attorney, for the city of Superior.

Both the Wisconsin Telephone Company and the Peoples Telephone Company have owned and operated telephone exchange systems in the city of Superior upon a competitive basis for a considerable number of years. The exchange operated by the Wisconsin Telephone Company was formerly the property of the Douglas County Telephone Company which was closely affiliated with the Duluth Telephone Company and The Northwestern Exchange Telephone Company, which two companies represented the Bell interests in the State of Minnesota. The Peoples Telephone Company was organized and began doing business about 1899. It was largely owned and controlled by the Zenith Telephone Company of Duluth, which company in turn was affiliated with the Tri-State Telephone Company, known as

an independent organization. Shortly before 1910, the property of the Douglas County Telephone Company was turned over to and became a part of the Wisconsin Telephone Company's system and has been operated as one of that company's exchanges ever since.

Several years ago The Northwestern Telephone Exchange Company and the Tri-State Telephone Company entered into an agreement and made arrangements whereby local competition between those two companies or their affiliated companies was to a large extent eliminated in the State of Minnesota. A division of territory was made and local competitive exchanges were unified and amalgamated under one or the other company as provided for by the terms of this agreement. In the city of Duluth, The Northwestern Telephone Exchange Company acquired the property and plant of the Zenith Telephone Company, and it also acquired the controlling interest in the Peoples Telephone Company in Superior which had formerly been controlled by the Tri-State interests. The last report shows that over 80 per cent. of the stock of the Peoples Telephone Company is now owned and controlled by The Northwestern Telephone Exchange Company.

The present plan contemplates the transfer of the property and plant of the Peoples Telephone Company to the Wisconsin Telephone Company for a certain fixed consideration and in that way it is proposed to bring about a consolidation and unification of service in the city of Superior similar to that which has already taken place in Duluth. Such an absorption of property will result in the elimination of the Peoples Telephone Company as a public utility.

The Commission is requested not only to authorize this consolidation, but to approve of an increase in rates so that sufficient revenues can be obtained to meet the requirements of operation after the proposed merger is completed. In passing upon the financial requirements of such unified operation, it will be necessary and of interest to study and analyze the financial and operating records of the two tele-

phone systems during a part of this competitive period. In spite of the fact that the Public Utilities Law provides that physical connection between two competing telephone systems can be had under terms and conditions fixed by the Commission or by agreement, such a connection was never effected between the two systems in Superior. In other cities in the State where similar conditions prevailed, competing exchanges were connected with trunk lines and messages transferred upon a basis of differential charges. Such a connection was never very seriously proposed in Superior. Several years ago unlimited service between Superior, Wisconsin, and Duluth, Minnesota, between the two Bell exchanges and between the two independent exchanges was discontinued and a toll charge was put into effect.

The 1920 report of the Peoples Telephone Company presents the following balance sheet:

BALANCE SHEET, DECEMBER 31, 1920.

PEOPLES TELEPHONE COMPANY, SUPERIOR.

<i>Assets</i>		<i>Liabilities</i>	
Property and plant.....	\$320,429 43	Capital stock.....	\$94,000 00
Cash and deposits.....	4,730 71	Matured funded debt unpaid	100,000 00
Employees' working funds	200 00	Vouchers unpaid.....	2,968 85
Due from subscribers and agents.....	4,304 62	Taxes accrued.....	2,454 73
Accounts receivable.....	2,330 66	Other accrued liabilities...	2,500 00
Materials and supplies....	6,433 08	Depreciation reserve.....	68,539 46
Prepayments.....	704 52	Surplus.....	68,669 98
			<u>\$339,133 02</u>
TOTAL.....	<u>\$339,133 02</u>		

In order to comprehend the earnings of the Peoples Telephone Company during recent years, the following table has been prepared showing, year by year since 1910, the company's book value, operating revenues, operating expenses and taxes, the amount available for depreciation and return and the ratio between the earnings and the book value.

TABLE I.

INVESTMENT AND EARNINGS, PEOPLES TELEPHONE COMPANY, SUPERIOR,
1910-1920.

	Property and Plant	Operating Revenues	Operating Expenses Per Cent. Taxes	Available for Depreciation and Return	
				Amount	Per Cent.
Year ended June 30, 1910.....	\$195,024	\$39,309 49	\$25,125 75	\$14,183 74	7.3
Year ended June 30, 1911.....	200,707	41,418 04	23,604 99	17,813 05	8.8
Year ended June 30, 1912.....	212,824	45,154 36	26,058 56	19,095 80	8.9
Year ended June 30, 1913.....	219,007	45,669 31	29,134 50	16,534 81	7.5
Eighteen months ended December					
31, 1914.....	242,798	73,802 77	45,289 09	28,513 68	7.8
Year ended December 31, 1915.....	256,075	51,699 59	31,148 74	20,550 85	8.0
Year ended December 31, 1916.....	266,995	57,016 80	34,047 04	22,969 76	8.6
Year ended December 31, 1917.....	279,839	61,825 57	37,490 43	24,335 14	8.7
Year ended December 31, 1918.....	288,499	68,461 90	43,971 81	24,490 09	8.5
Year ended December 31, 1919.....	287,685	67,101 09	46,598 26	20,504 83	7.1
Year ended December 31, 1920.....	290,429	68,795 78	51,169 21	17,626 57	6.6

The Peoples company carried its property and plant account upon its books at \$320,429.43 as of December 31, 1920. The reports to the Commission indicate that this amount includes \$30,000 as the value of the franchise. Since there is no proof to the contrary, we assume that this is an arbitrary figure and does not as a matter of fact represent an actual payment of that amount for the right of doing business. The property and plant figures in TABLE I. do not include this franchise value and are each year \$30,000 less than the amount shown in the company's annual report and balance sheet. It is our understanding that the Peoples company never paid any dividends to its stockholders. Whatever amount was left at the end of the year, after meeting operating expenses and taxes and the interest charges upon outstanding bonds, was put back into the property and appeared upon the company's books as depreciation reserve and surplus.

According to TABLE I. the best showing was made in 1912 when the Peoples company had \$19,095.80 available for depreciation and return, which was 8.9 per cent. upon the adjusted book value. Assuming 5 per cent. as the necessary rate for depreciation, the company earned that year 3.9 per cent. as a return. In most of the years the net earnings were about 3 per cent. In 1919 the company earned at the rate of 2.1 per cent., and in 1920, the earnings dwindled to 1.6 per cent. after deducting each year a deprec-

ciation charge of 5 per cent. It is quite evident that during this period under consideration, the rates charged by the Peoples Telephone Company were not compensatory, the rate of return in each year being below the confiscatory limit.

An estimate of the value of the Peoples Telephone Company's property has been submitted in the form of an inventory and appraisal by the Tri-State Telephone Company which, as above mentioned, was formerly the controlling corporation. This appraisal represents the value of the plant as of July 1, 1918. The summary is set forth in the table below:

TABLE II.
SUMMARY OF VALUATION.
PEOPLES TELEPHONE COMPANY, SUPERIOR.

<i>Item</i>	<i>Reproduction Cost</i>	<i>Reproduction Cost</i>
	<i>New, July 1, 1918</i>	<i>New, Less Depreciation</i>
Land	\$7,680 75	\$7,680 75
Buildings	26,610 43	24,481 60
Central office equipment.....	41,317 27	34,978 83
Substation equipment	45,642 88	38,788 77
P. B. X. equipment.....	722 60	700 31
Pole lines	62,075 96	48,118 59
Aerial cable	61,774 37	48,969 38
Wire	35,705 52	27,957 18
Underground conduit	17,795 59	17,350 68
Underground cable	20,234 30	18,355 13
Submarine cable	217 00	121 32
Furniture and fixtures.....	1,278 19	1,071 00
Tools	805 38	523 50
Garage equipment	1,565 58	1,092 38
Materials and supplies.....	5,096 19	4,083 52
TOTAL	\$328,522 01	\$274,272 94
Less adjustments .....	.....	3,968 44
TOTAL VALUATION	\$328,522 01	\$270,304 50

To the above total reproduction cost new, less depreciation, there has been added in the inventory a going value

of \$26,622 which brings the final valuation figure to \$296,927 which is the amount which the Wisconsin Telephone Company has agreed to pay for this property in this purchase transaction. The units of cost applied in this inventory are approximately a five-year average, 1913-1918.

The Commission's files show that its engineering staff made a valuation of the property of Peoples Telephone Company as of June 23, 1909, and at that time found a total value of \$158,509. In the table below, this amount is used as a basis and the yearly valuation is computed by adding the net annual additions as indicated in the Peoples company's annual reports to the Commission.

TABLE III.
VALUATION BASED ON 1909 APPRAISAL.
PEOPLES TELEPHONE COMPANY, SUPERIOR.

	<i>Property Additions</i>	<i>Valuation</i>
Inventory, June 23, 1909.....		\$158,509
Year ended June 30, 1910.....	\$4,462	162,971
Year ended June 30, 1911.....	5,683	168,654
Year ended June 30, 1912.....	12,117	180,771
Year ended June 30, 1913.....	6,183	186,954
Eighteen months ended December 31, 1914.....	23,791	210,745
Year ended December 31, 1915.....	13,277	224,022
Year ended December 31, 1916.....	10,920	234,942
Year ended December 31, 1917.....	12,844	247,786
Year ended December 31, 1918.....	8,660	256,446
Year ended December 31, 1919.....	*814	255,632
Year ended December 31, 1920.....	2,744	258,376
TOTAL	\$99,867	\$258,376

* Deduction.

According to this statement the Peoples Telephone Company made additions to its property from 1909 to 1920 amounting to \$99,867 which amount added to the 1909 inventory results in a total property value of \$258,376 at

December 31, 1920. There are then before us these three valuations of the Peoples company's system. The inventory and appraisal presented by the company brought down to date shows a cost new of about \$334,782; the company's property and plant account excluding franchise value as found in the 1920 annual report is carried at \$290,429; the 1909 inventory and appraisal with book additions shows a valuation at December 31, 1920, of \$258,376.

This figure of \$258,376 appears to correspond more closely with the actual investment made in the property of the Peoples Telephone Company than the other valuation figures and by using it as a rate base we find that for the year 1920 the amount available for depreciation and interest, \$17,626.57, was only 6.8 per cent. of this assumed valuation. Using this same method of arriving at a rate base we find that in 1912, the year when the best showing was made, the Peoples company had available for depreciation and interest 10.5 per cent. In other words the net earnings for this period of time were the largest in 1912 when they amounted to about 5.5 per cent. and the lowest in 1920 when they were about 1.8 per cent. Using valuations based on the 1909 appraisal we find that the Peoples company during the twelve-and-one-half-years' period averaged 8.5 per cent. for depreciation and interest, or about 3.5 per cent. for net earnings. In 1920 the Peoples company was short about \$15,962 of earning its full depreciation and return requirements, which was a shortage of \$5.84 per station.

The book value of the Wisconsin Telephone Company's property in the city of Superior as of December 31, 1920, is set forth in the following tabulation:

TABLE IV.

BOOK VALUE, SUPERIOR EXCHANGE,
WISCONSIN TELEPHONE COMPANY,
DECEMBER 31, 1921.

Right-of-way	\$436 66
Land	6,162 65
Building	48,258 12
Central office equipment.....	57,433 20
Substation equipment	55,772 71
Pole lines	27,679 09
Aerial cable	76,040 50
Wire	55,529 01
Underground conduit	30,593 70
Underground cable	34,800 55
Marine cable	46 54
Office furniture and fixtures.....	1,224 76
General stores and equipment.....	274 74
Stable and garage equipment.....	1,411 06
General tools and implements.....	1,314 69
TOTAL	\$396,977 98

This book value does not include any apportionment of the company's general office building, stores and supplies at Milwaukee which should be taken into account in determining a basis for rate-making. Since December 31, 1920, the Wisconsin Telephone Company has added the following investment to the Superior exchange:

Central office equipment.....	\$28,485 00
Substation equipment	29,000 00
Outside plant	30,000 00
TOTAL ESTIMATE OF ADDITIONS.....	\$87,485 00

A large part of this investment has been made for the purpose of bringing the plant up to its normal pre-war condition. During the war the company was unable to maintain the necessary spare and emergency equipment, due to government demands. The above investment has been made largely to meet these requirements.

In order to understand fully the results of operation of the Wisconsin Telephone Company at its Superior exchange, we are setting forth in the following table data similar to that shown in TABLE I. for the Peoples Telephone Company. The property and plant account and the other figures are all obtained from the company's annual reports to the Commission.

TABLE V.

INVESTMENT AND EARNINGS.

WISCONSIN TELEPHONE COMPANY, SUPERIOR EXCHANGE,
1910-1920.

	<i>Property and Plant</i>	<i>Operating Revenues</i>	<i>Operating Expenses and Taxes</i>	<i>Available for Depreciation and Return</i>	
				<i>Amount</i>	<i>Per Cent.</i>
Year ended June 30, 1910.....	\$120,063	\$39,722 66	\$35,135 72	\$4,586 94	3.8
Year ended June 30, 1911.....	132,235	42,461 67	34,741 54	7,720 13	5.8
Year ended June 30, 1912.....	138,309	46,867 92	34,563 27	12,304 65	8.9
Year ended June 30, 1913.....	146,778	54,041 29	36,348 36	17,692 93	12.0
Eighteen months ended December 31, 1914.....	180,184	94,455 79	60,627 76	33,828 03	12.4
Year ended December 31, 1915.....	183,340	62,565 31	38,449 35	24,115 96	13.1
Year ended December 31, 1916.....	350,620	64,723 96	42,495 64	22,228 32	6.3
Year ended December 31, 1917.....	354,468	72,536 61	44,784 99	27,751 62	7.8
Year ended December 31, 1918.....	361,274	78,774 85	51,217 99	27,556 86	7.6
Year ended December 31, 1919.....	373,877	87,249 37	61,414 41	25,834 96	6.9
Year ended December 31, 1920.....	<u>396,977</u>	<u>90,423 97</u>	<u>74,446 39</u>	<u>15,977 58</u>	<u>4.0</u>

For 1920 the Wisconsin Telephone Company had available for depreciation and interest at its Superior exchange \$15,977.58, or about 4.0 per cent. upon its book value — not quite sufficient to meet the depreciation charge alone. In 1914 and 1915 it appears the company earned sufficient to meet its depreciation and interest requirements. But those were the only years of adequate earnings.

No recent inventory and valuation has been made of this property. Our files however show that an appraisal was made of this property by our engineering staff in 1908 and corrected to October 22, 1909. At that time the valuation was shown to be \$154,886. In the following tabulation this appraisal is brought up to date by adding the net additions to plant since that time as indicated in the company's annual reports.

TABLE VI.
VALUATION BASED ON 1909 APPRAISAL.
WISCONSIN TELEPHONE COMPANY, SUPERIOR EXCHANGE.

	<i>Property Additions</i>	<i>Valuation</i>
Inventory, October 22, 1909.....		\$154,886
Year ended June 30, 1910.....	*\$14,273	169,159
Year ended June 30, 1911.....	12,172	181,331
Year ended June 30, 1912.....	6,074	187,405
Year ended June 30, 1913.....	8,469	195,874
Eighteen months ended December 31, 1914....	33,406	229,280
Year ended December 31, 1915.....	3,156	232,436
Year ended December 31, 1916.....	167,280	399,713
Year ended December 31, 1917.....	3,848	403,564
Year ended December 31, 1918.....	6,806	410,370
Year ended December 31, 1919.....	12,603	422,973
Year ended December 31, 1920.....	23,100	446,073
TOTAL	\$291,187	\$446,073

* For the whole twelve months' period.

The Wisconsin Telephone Company, according to this statement, made additions and extensions to its Superior exchange over this period of time amounting to \$291,187 which amount added to engineering appraisal results in a plant value of \$446,073. The additions in 1916 are unusually large because in that year a very large amount of underground construction work was done. According to this compilation of valuation data the company's book value for 1920 is \$49,094 less than this engineering valuation brought down to date. Using these values as rate bases the earnings of the Superior exchange show up less favorably than when the bare book values are considered as in TABLE V.

The foregoing analyses of the operations of the Peoples Telephone Company and the Wisconsin Telephone Company in the city of Superior show very meagre results so far as earnings are concerned; during this period the average annual return upon the property of the Peoples company was about 3.5 per cent. and average return upon the

Wisconsin Telephone Company's property was about 1.1 per cent. after making adequate provisions for depreciation. The operating results and valuations for 1920 for the two exchanges computed upon a per-station basis are set forth in the following tabulation:

TABLE VII.

	<i>Peoples Telephone Company</i>	<i>Wisconsin Telephone Company</i>
Number of stations.....	2,731	4,562
Valuation (Commission's engineer's brought to date)	\$258,376 00	\$446,073 00
Valuation, per station.....	94 60	97 99
Operating revenues	68,795 00	90,423 00
Operating revenues, per station.....	25 19	19 86
Operating expenses and taxes.....	51,169 00	74,446 00
Operating expenses and taxes, per station....	18 74	16 35
Available for depreciation and return.....	17,626 00	15,977 00
Available for depreciation and return, per station	6 45	3 51
Full depreciation and return requirements.....	33,588 00	57,989 00
Full depreciation and return requirements, per station	12 29	12 73
Shortage in depreciation and return requirements	15,962 00	42,012 00
Shortage in depreciation and return requirements, per station.....	5 84	9 22

The consolidation and unification of the two exchange systems will result in the displacement of a certain amount of property. It has been estimated that the discarded property will have a value of \$166,970. It is further estimated that the net salvage value arising from the removal of the discarded plant will not exceed \$18,980. This amount is determined as follows:

<i>Item</i>	<i>Gross Salvage</i>	<i>Labor Removing</i>	<i>Net Salvage</i>
Land.....	\$4,000	.....	\$4,000
Buildings.....	10,200	.....	10,200
Central office.....	4,260	.....	4,260
Substation equipment.....	3,440	\$1,720	1,720
Outside plant.....	12,000	14,000	*2,000
General equipment.....	500	.....	500
Materials and supplies.....	300	.....	300
TOTAL.....	\$34,700	\$15,720	\$18,980

* Loss.

The Wisconsin Telephone Company proposes to amortize the difference between the value of the discarded property \$166,970 and the net salvage value \$18,980, or \$147,990 over a period of five years. In this connection it should be pointed out that the value of the displaced property has been estimated upon the same unit costs as were used in the inventory and 1918 appraisal of the Peoples company. By using the unit costs ordinarily applied by the Commission's engineering department and making the necessary adjustments we find that the value of the discarded plant after crediting it with the net salvage is about \$93,000 instead of \$147,990.

The question now arises at what amount should the property of the Peoples Telephone Company be taken over in this consolidation proceeding and used as a part of the amount upon which earnings should be computed. As indicated above, we believe that the 1909 valuation of these two exchange systems together with the yearly additions and improvements is the fairest one to use. The 1918 inventory and valuation show a cost new of \$328,522 and a depreciated value of \$270,304. Applying this same depreciated condition to the 1909 valuation brought down to date gives us a present day value of \$211,866 of the Peoples Telephone Company property. The property to be discarded upon consolidation will be \$93,000 so that \$104,866 will really be added to the value of the Wisconsin Telephone Company's present plant in Superior.

In taking over this property of the Peoples Telephone Company the Wisconsin Telephone Company should not charge more than \$104,000 to its tangible property account; the balance of the purchase price should be charged to suspense accounts and be amortized out of the company's earnings over a period of years unless upon further showing by the company the Commission authorize a greater charge.

The valuation of the Wisconsin Telephone Company's present plant based upon the 1909 valuation brought down to date was \$396,977 as of December 31, 1920. The addi-

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tions made in 1920 amount to \$87,485. The amount of the company's general office building in Milwaukee and the general stores and supplies which should be apportioned to the Superior exchange is \$33,463. The total amount then upon which the Wisconsin Telephone Company is entitled to earn subsequent to a consolidation of the two Superior exchange systems is as follows:

Valuation (1909) brought down to December 31, 1920.....	\$396,977
Additions to plant, 1921.....	87,485
Apportionment of Milwaukee general office and stores.....	33,463
Addition of Peoples company's property.....	104,866

TOTAL	\$622,791
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The annual requirement for depreciation and return upon this valuation is \$80,962.83 which is based upon an 8 per cent. return and a 5 per cent. depreciation rate. The petitioner claims that in addition to these requirements the revenues should be sufficiently ample so that the value of the discarded property could be amortized over a period of five years. If this were allowed there would have to be provided out of earnings about \$20,000 a year in addition to meet this amortization charge. In our opinion this is not warranted under the circumstances and the Wisconsin Telephone Company should not acquire the Peoples company's property at a price which would make such a procedure necessary.

The city's representative contends that no change in rates should be made until a complete consolidation has been made effective and it is definitely known what the operating expenses are under the changed conditions. There might be some merit to this suggestion if the financial results of the operations of the two systems in the city of Superior had been more favorable in the past and if both companies had earned on the average anywhere near a fair return during these years. Both companies according to their operating statements have been, and are, in such condition that a substantial increase in rates can be justified on the part of each even though there is no consolidation

of service. It must also be borne in mind that a unification of the two systems will on the whole be of benefit to the telephone using public and will in a considerable number of cases result in a reduction of telephone costs to certain subscribers through the elimination of duplicate instruments.

In order to determine what the probable operating costs will be after the consolidation has taken place we have made an analysis of the applicant's operating costs for exchanges of comparable size upon the conditions prevailing during the first six months of 1921. The prorated yearly operating expenses based upon the period considered are as follows:

<i>Exchange</i>	<i>Year's Operating Expenses and Taxes</i>	<i>Average Per Station</i>
Appleton	\$84,422	\$18 70
Fond du Lac.....	99,136	18 45
Green Bay	127,540	19 87
Kenosha	103,032	18 70
Madison	237,836	19 06
Oshkosh	104,942	17 20
Racine	194,660	20 55
Superior	79,513	17 10
<hr/> AVERAGE EXPENSE (WEIGHTED).....		<hr/> \$18 95

The total expenses for each of the above exchanges include in addition to the cost of operating the company's telephones the costs of operating for switched telephone companies. Making an adjustment for this particular item will reduce this average by a small amount.

The Superior telephone system even when consolidated will consist of two central offices located in buildings in different sections of the city. The operating expenses incident to the operation of the two exchanges will, in our opinion and judgment, be very near as high as the average set forth above. It appears, therefore, if we compute the total operating expenses of \$18.50 per station that this will be a conservative estimate of operating expenses for a twelve-months' period after unified service is given.

In the following tabulation are set forth the number and classification of the subscribers of the two telephone systems as of December 31, 1920.

TABLE VIII.

CLASSIFICATION OF SUBSCRIBERS.

WISCONSIN TELEPHONE COMPANY AND PEOPLES TELEPHONE COMPANY.
SUPERIOR, DECEMBER 31, 1920.

<i>Classification</i>	<i>Wisconsin Telephone Company</i>	<i>Peoples Telephone Company</i>	<i>Total</i>	<i>Duplicates</i>
Business, one-party	681	434	1,115	407
Business, two-party	38	76	114	11
Business, four-party	107	177	284	32
Business extension	267	165	432	21
Residence, one-party	243	135	378	88
Residence, two-party	260	133	393	None
Residence, four-party	2,433	1,354	3,787	None
Residence extensions	92	34	126	None
Rural	7	39	46	None
Roadway (switched)	None	179	179	None
P. B. X. stations	352	None	352	None
Miscellaneous	72	5	77	None
TOTAL STATIONS	4,552	2,731	7,283	559

The item "duplicates" set forth in Column 4 does not represent the present number of duplicate installations in the city of Superior but rather represents the number of duplicate telephones that will be discontinued in each class of service in event the two plants are consolidated. This estimate is based wholly on the experience and conditions at other similar exchanges where consolidations of two telephone systems have been effected viz., Racine, Madison, Ashland and Appleton. It appears, therefore, that these estimated figures on the total telephones in use after consolidation can be safely used in the determination of prospective revenues as well as operating expenses. The estimated annual requirements for the operation of a unified system in Superior will be as follows:

Depreciation and return	\$80,962
Operating expenses and taxes (6,724 stations at \$18.50)	124,304
TOTAL	\$205,356

The rates proposed in the application applied to the various classes of subscribers which will be served after a consolidation is effected will yield, in our estimation, a gross revenue of about \$222,052. According to the revenue needs and requirements as shown above, this amount is somewhat larger than necessary, and as a substitute schedule we have applied the rates in the following schedule to the various classes of service and find that the revenues yielded under it will closely approximate the estimated requirements.

TABLE IX.

ESTIMATED REVENUES.

CONSOLIDATED EXCHANGES, SUPERIOR.

<i>Classification</i>	<i>Number</i>	<i>Annual Rate</i>	<i>Revenues</i>
Business, one-party.....	708	\$72 00	\$50,976
Business, two-party.....	103	60 00	6,180
Business, four-party.....	252	48 00	12,096
Business extensions.....	411	12 00	4,932
Residence, one-party.....	290	33 00	9,570
Residence, two-party.....	393	27 00	10,611
Residence, four-party.....	3,787	24 00	90,888
Residence extensions.....	126	9 00	1,134
Rural.....	46	27 00	1,242
Roadway (switched).....	179	9 00	1,611
P. B. X. (1).....	158	12 00	1,896
P. B. X. (2).....	194	18 00	3,492
P. B. X. trunks.....	44	72 00	3,168
P. B. X. switchboards.....	21	72 00	1,512
Pay stations.....	32	24 00	768
Miscellaneous revenues (estimated).....			2,265
TOTAL ESTIMATED REVENUES.....			<u><u>\$202,341</u></u>

This schedule of rates and the estimated revenues derived therefrom is amply substantiated by the evidence and data in this proceeding and in the files of the Commission. While it may appear that the revenues are not quite equal to the computed requirements, the difference will, in our opinion, be to a large extent absorbed by the revenues from additional business and also through other minor adjustments.

In the company's application a request is made to discontinue four-party business service which would mean that all the present subscribers to this class of service

would have to move up into the higher class, namely, two-party service. It is a fact that in practically no exchanges throughout the State is any four-party business class furnished. Ordinarily it is considered as not being very satisfactory to the subscriber and to the telephone using public as a whole. The circumstances in this particular case are somewhat different. According to the present subscriber classification, the two telephone systems serve 114 two-party business subscribers and 284 four-party business subscribers. While a certain number of these four-party subscribers are receiving duplicate service, it still remains evident that a very considerable number of small business places find that a four-party service satisfies their needs. In the light of these facts and conditions, it does not appear reasonable nor expedient to eliminate this class of service at this time. We are, therefore, providing a rate for this service maintaining a fair differential between it and the two-party business rate. The rates for the other classes of business service appear to be reasonable in and of themselves. While it is a very considerable increase over the previous business rates, it is quite obvious from the study already made that the rates for business service in the past did not in any way approximate the cost of the service.

The residence rates are fixed somewhat below the applicant's proposal but on the whole agree and compare favorably with the rates found in other cities of the same size in the State where there is the same average investment. At the present time full selective ringing is furnished with the four-party service; the switchboards and instruments of both companies are equipped to give that kind of service. In its application the company desires to make this four-party service divided ringing which would result in each of the subscribers of this class of service getting one ring in addition to his own. This divided ringing service on four-party lines is undoubtedly satisfactory in a great many places where it is given, but under the circumstances where a full selective ringing service is given, we believe that it

would be unsatisfactory to change to the other type and would be considered as a retrogression in the quality of service rendered.

It is, therefore, ordered, That the rate schedules of the Wisconsin Telephone Company and of the Peoples Telephone Company in the city of Superior and the territory tributary thereto may be discontinued and that the Wisconsin Telephone Company be, and the same is hereby, authorized to apply the following schedule of rates upon the unification of service:

	<i>Net Rate Per Month</i>
One-party, business, unlimited.....	\$6 00
Two-party, business, unlimited.....	5 00
Four-party, business, unlimited.....	4 00
Business extension telephone (plus 40 cents per month for each one-eighth mile line or fraction thereof on stations located outside premises).....	1 00
One-party, residence, unlimited.....	2 75
Two-party, residence, unlimited.....	2 25
Four-party, residence, unlimited, full selective ringing.....	2 00
Residence extension telephone, wall or desk set (plus 40 cents per month for each one-eighth mile line or fraction thereof on stations located outside premises).....	75
Rural rates for subscribers connected with rural line within 6 miles from central office, with \$3.00 per annum additional for each mile or fraction thereof beyond.....	2 25
<i>Private Branch Exchange Type No. 1 (Business) Cord and Cordless Switchboards:</i>	
(Private Branch Exchange Operator to be Provided by Subscriber)	
Cord switchboard, each, with operator's set and not to exceed 15 drops, battery included.....	\$6 00
Each additional group of 5 signals or fraction thereof...	40
Cordless switchboard equipped for 2 trunks and 4 stations or for 3 trunks, 7 stations, battery included.....	4 00
Two-way trunk, each, same as one-party, business.	
Receiving trunk lines.....	Discontinue
Generator circuit, each.....	3 00
Each station in same building as switchboard.....	1 00
Each station outside of building (plus 40 cents per month for each one-eighth mile line or fraction thereof beyond)	1 00

Private Branch Exchange Type No. 2 (Business): *Net Rate
Per Month*

(Equipped for Ten Stations)

Two-way trunk, each, same as one-party, business.

Receiving trunk lines.....Discontinue

Receiving station \$1 50

Each station in same building with receiving station.... 1 50

Each station outside of building, but located on same premises and at a distance not exceeding 300 feet from receiving station 2 25

Battery circuit 1 67

Private Branch Exchange Type No. 2 (Residence):

(Equipped for Ten Stations)

Two-way trunk, each, same as one-party, residence.

Receiving trunk lines.....Discontinue

Receiving station \$1 50

Each station in same building with receiving station.... 1 00

Each station outside of building, but located on same premises and at a distance not exceeding 300 feet from receiving station 2 00

Battery circuit 1 00

Roadway Service:

(Beyond Base Rate Area)

Roadway service, furnished only to roadway companies, per station 75

A minimum charge equivalent to the rate of 5 stations is made for any circuit.

An additional charge is made when transmitter and receiver are furnished.

Hotel Private Branch Exchange:

Two-way trunk, each, guarantee of net revenue to company equal to one-party, business, unlimited rate.

Switchboard, including battery, each position, including operator's set 6 00

Generator circuit, each..... 3 00

Each station on hotel premises..... 50

Outgoing messages, 5 cents each, of which the hotel receives 50 per cent. and the telephone company 50 per cent.

The company will install and maintain the wiring system between the switchboard and the stations on the premises at the expense of the hotel.

	<i>Net Rate</i>
	<i>Per Month</i>
<i>Spring Jacks:</i>	
Installation charge, each.....	\$0 15
Code SJ jacks for location in residences, cost of labor and material.	

Private Lines:

Each instrument, per month.....	50
Each one-quarter mile of line or fraction.....	84
(These rates include the installation and maintenance of the lines and instruments, but these lines shall have no connection with any exchange line).	

Miscellaneous Extra Equipment:

Ordinary extension bell.....	25
Extension bell with switch.....	40
Extension gong:	
6 inch gong without switch.....	40
6 inch gong with switch.....	55
12 inch gong without switch.....	1 00
12 inch gong with switch.....	1 15
Cam lever, each.....	25

Extension bell or gong located out of doors and in open sheds will be charged for at double the above rates.

A monthly charge of 75 cents per quarter mile or fraction thereof beyond the specified exchange base rate area, will be made in addition to the exchange rates for each circuit extended beyond the exchange base rate area. The additional charge to be divided proportionately among the subscribers based on class of service of the line located beyond the exchange base rate area.

The above rates are net. All subscribers will be billed at a gross rate of 25 cents per station in excess of the above rates and the difference between the gross rate and the net rate shall constitute the discount for prompt payment in accordance with the rules of the company now on file with the Commission.

Dated at Madison, Wisconsin, this twenty-third day of December, 1921.

In re CADOTT-BOYD TEL. CO. AND LUDINGTON TEL. CO. 825
C.L.123]

In re APPLICATION OF THE CADOTT-BOYD TELEPHONE COMPANY FOR AUTHORITY TO INCREASE RATES.

U-2601.

In re APPLICATION OF THE LUDINGTON TELEPHONE COMPANY FOR AUTHORITY TO INCREASE RATES.

U-2604.

Decided December 27, 1921.

Toll Rates Established for Grounded Line Service—Standard Toll Rates to Become Effective when Metallic Service is Established—Division of Toll Charges Fixed.

OPINION AND DECISION.

The applications of the Cadott-Boyd Telephone Company and the Ludington Telephone Company seeking authority to place in effect standard toll rates between their respective systems were filed with the Commission November 8, 1921. Hearing was set for November 25, 1921, at Madison, Wisconsin. No appearances were entered either for or against the application.

Both applications state that there is no regular established toll rate between the two systems at the present time. Permission is asked to establish the standard toll rate of 15 cents for station-to-station calls and 20 cents for person-to-person calls.

The Cadott-Boyd Telephone Company operates two exchanges—one at Cadott with 290 subscribers and the other at Boyd with 76 subscribers.

The Ludington company operates one exchange which is located at Fall Creek and serves 379 subscribers.

The exchanges of the Cadott-Boyd company are both within the 12-18 mile zone from the Fall Creek exchange which would give each the 15 cents station-to-station rate of the standard telephone toll schedule. The person-to-person rate would be 20 cents.

The book value of the Cadott-Boyd system is \$19,825.97 according to the annual report rendered to the Commis-

sion December 31, 1920. The company's balance sheet shows a deficit of \$1,229.04.

The Ludington company's investment according to its books is \$17,275.75 and its general balance sheet at December 31, 1920, showed an accumulated surplus of \$3,675.37.

The operating statements for the two companies for the year ending December 31, 1921, are set forth in TABLE I.

TABLE I.

OPERATING STATEMENTS.

CADOTT-BOYD AND LUDINGTON TELEPHONE COMPANIES.

YEAR ENDING DECEMBER 31, 1921.

	<i>Cadott-Boyd Company</i>	<i>Ludington Company</i>
<i>Operating Revenues:</i>		
Subscriber telephone earnings.....	\$5,724 16	\$6,437 95
Earnings on local tolls.....	229 47	85 67
Earnings on long distance tolls.....	167 06	368 00
TOTAL EARNINGS	\$6,120 69	\$6,891 62
<i>Operating Expenses:</i>		
Central office expense.....	3,727 64	2,266 10
Wire plant expense.....	1,191 61	1,498 14
Station expense	395 72	799 86
Commercial expense .....	.....	444 52
General expense	357 47	252 00
Undistributed expense	100 24	128 80
TOTAL ABOVE	\$5,772 68	\$5,389 42
Taxes	137 45	132 63
TOTAL	\$5,910 13	\$5,522 05
Available for return and depreciation.....	\$210 56	\$1,369 57

The requirements for return and depreciation computed at 8 per cent. for return and 6 per cent. for depreciation would be as follows:

Cadott-Boyd company	\$2,775 64
Ludington company	2,418 61

It appears that neither company is earning an adequate return on its investment at the present time.

We do not believe that the revenues arising from the application of reasonable toll rates on messages transmitted over the toll line connecting the two companies will be greater than the average revenues over such connecting lines. We estimate that these revenues will not exceed \$400 per year.

It seems, therefore, that the institution of a toll rate on this line will not produce total revenues for either of these companies in excess of their present needs.

We do not believe that a rate equivalent to the standard toll rate charges should be authorized on this line for the reason that our records show that it is a grounded line. The rate requested is a charge equivalent to that made for messages going an equal distance over a full metallic line properly transposed to give a high-grade service. Such service cannot, we believe, be given over a grounded line. Our order will, therefore, provide for a charge of 10 cents for any message of five minutes or less, with a charge of 5 cents for each additional two minutes or fraction thereof.

The applicants will be held responsible for a high degree of grounded line service.

It is, therefore, ordered, That the applicants, the Cadott-Boyd and the Ludington telephone companies, be, and the same hereby are, authorized to institute a charge of 10 cents per message on all messages of five minutes or less, with a further charge of 5 cents for each additional two minutes or fraction thereof, passing over the grounded toll line connecting their respective systems.

It is further ordered, That the applicants may, when the line in question is made full metallic and properly transposed, substitute for the above charge a station-to-station rate of 15 cents and a person-to-person rate of 20 cents, with the same overtime charges as authorized above.

The exchange originating the call may retain 30 per cent. of the charges on any message, the remainder of the

charge may be prorated between the two companies in proportion to the number of miles of the line owned by each company.

It is further ordered, That the applicants shall so operate and maintain this line as to render the highest type of service feasible for a line of this type.

Rates may be made effective upon the filing with the Commission by both companies of the rates herein authorized.

Dated at Madison, Wisconsin, this twenty-seventh day of December, 1921.

In re APPLICATION OF THE MOUNT VERNON TELEPHONE COMPANY FOR AUTHORITY TO ISSUE STOCK.

S. B.-1681.

Decided December 29, 1921.

Permission to Issue Stock Granted—Stock Dividend Authorized.

CERTIFICATE.

Be it remembered, that on the twenty-third day of June, 1921, the Mount Vernon Telephone Company, a public service corporation, applied to the Railroad Commission of Wisconsin for authority to issue \$19,200 of stock and for that purpose filed with the Commission a statement duly signed and verified by its president and secretary as required by Section 1753-9 of the Statutes;

That it appears from said statement that the sum of the outstanding stock, bonds, notes and other evidences of indebtedness of said corporation reckoned at the par or face value thereof is less than the value of the property owned by said corporation and used by it in the conduct of its business, and that said corporation desires to issue \$19,200 of its capital stock for the purpose of bringing the total of its outstanding stock, bonds, notes and other evidences of indebtedness more nearly to an equality with

the value of its aforesaid property, as provided in Paragraph D of Subsection 1 of Section 1753-5 of the Statutes;

That upon investigation into the matters set forth in said statement and into the value of the property of said Mount Vernon Telephone Company, the Commission finds and determines that the value of the property of said corporation on December 23, 1921, for the purposes of these proceedings was at least the sum of \$31,200. The value herein fixed and determined is for the purpose of this proceeding only and shall not be taken in a proceeding before the Railroad Commission of Wisconsin or before any other public authority as representing the fair value for any other purpose;

That said corporation duly and satisfactorily complied with the requirements of said statute and the Commission after considering said statement and the evidence before it found and determined that the proposed issue of \$19,200 of stock is lawful and for lawful purposes and reasonably necessary for the purposes of the corporation.

Now, therefore, the Railroad Commission of Wisconsin hereby authorizes the Mount Vernon Telephone Company, a Wisconsin corporation, to issue stock as follows:

One hundred ninety-two shares of its capital stock of the par value of \$100 each, making a total issue of \$19,200, said stock to be distributed equally, share for share, among the holders of the stock now outstanding.

Said Mount Vernon Telephone Company shall file with the Commission within thirty days after said distribution verified statements showing the facts in relation thereto.

Said Mount Vernon Telephone Company shall not issue the stock herein authorized or receive any money therefor, either directly or indirectly, until this certificate shall have been recorded upon the books of the corporation.

In witness whereof, these presents have been signed and attested by the Railroad Commission of Wisconsin, at its office in the Capitol in the city of Madison, Wisconsin, this twenty-ninth day of December, 1921.

In re APPLICATION OF THE SEYMOUR-SHIOCTON TELEPHONE
COMPANY FOR AUTHORITY TO INCREASE RATES.

U-2576.

Decided December 31, 1921.

Value Determined — Increase in Rates Authorized.

Application was filed, in which authority was requested to increase rates at applicant's exchanges located at Seymour, Black Creek and Shiocton.

The Commission found that the fair value of applicant's property was \$58,406; that a reasonable allowance as a rate of return would be 8 per cent., and as reserve for depreciation would be 6 per cent. on this valuation, making total requirements for these purposes of \$3,176.84; that the total telephone operating income for the year 1920 amounted to \$4,954.16; that by an order* issued May 25, 1920, an increase in rates had been authorized; that if said increase had been in effect throughout the year, the operating income would have amounted to \$6,293.94; that the difference between this amount, which would be the amount available for return and for reserve for depreciation under the present rates, and the actual requirements as above stated was \$1,882.90; that it therefore appeared that applicant was entitled to an increase in rates.

Held, That applicant should be authorized to discontinue its present schedule of rates, and to substitute therefor the following net monthly rates: business, one-party, \$3.00, two-party, \$2.75, four-party, \$2.50; residence, one-party, \$2.00, two-party, \$1.75, four-party, \$1.50, the gross rates being 25 cents per month higher than the net rates; rural, within 6-mile radius, \$5.00 net per quarter, beyond 6-mile radius, \$5.00 net per quarter, plus 75 cents per quarter mile or fraction thereof; switching charge, \$2.00 gross, \$1.80 net per quarter.

The application of the Seymour-Shiocton Telephone Company seeking authority to increase rates at its Seymour, Black Creek and Shiocton exchanges was filed with the Commission September 14, 1921.

Hearing was held at Madison, Wisconsin, October 6, 1921, at which time *C. J. Jackson*, manager, appeared for the applicant. *Fred Blohm* representing rural subscribers of the company appeared in opposition.

* See Commission Leaflet No. 103, p. 876.

The rates now being charged by the applicant were authorized by order* of the Commission May 25, 1920, and are as follows:

	<i>Per Month</i>	
	<i>Gross</i>	<i>Net</i>
Business, one-party	\$2 75	\$2 50
Business, two-party	2 50	2 25
Business, four-party	2 25	2 00
Residence, one-party	2 10	1 85
Residence, two-party	1 85	1 60
Residence, four-party	1 60	1 35
Extension telephones, business.....		60
Extension telephones, residence.....		50
<i>Per Quarter</i>		
Rural	\$5 50	\$4 50
<i>Per Year</i>		
Switched	\$7 00	\$6 50

The applicant alleges that these rates do not provide sufficient revenue to meet its operating charges and to provide for a fair return on its investment. Application is made for authority to adopt the following schedule:

	<i>Per Month</i>	
	<i>Gross</i>	<i>Net</i>
Business, one-party	\$3 25	\$3 00
Business, two-party	3 00	2 75
Business, four-party	2 75	2 50
Residence, one-party	2 25	2 00
Residence, two-party	2 00	1 75
Residence, four-party	1 75	1 50
Rural, within 6-mile radius.....	2 25	2 00
Rural, beyond 6-mile radius, 25 cents per month additional for each mile or fraction thereof beyond the 6-mile radius.		
Switched service	75	62½

All exchanges are of the magneto type and all circuits are full metallic. The subscribers served December 31, 1920, numbered 866, classified by the application as follows:

* See Commission Leaflet No. 103, p. 876.

TABLE I.

CLASSIFICATION OF SUBSCRIBERS.

SEYMOUR-SHIOCTON TELEPHONE COMPANY.

DECEMBER 31, 1920.

	<i>Seymour</i>	<i>Black Creek</i>	<i>Shiocton</i>
Business, one-party.....	46	17	7
Business, two-party.....	20	6	2
Business, more than two-party.....	3	6	18
Residence, one-party.....	47	5	2
Residence, two-party.....	24	4	8
Residence, three-party.....	26	3	12
Residence, four-party.....	80	8	12
Residence, more than four-party.....	10	6	20
Rural and miscellaneous.....	280	87	107
TOTAL.....	536	142	188

The applicant also furnishes the Black Creek and the Town Line companies with central office service. The former company has two circuits with 17 subscribers, and the latter one circuit with 15 subscribers. Trunk line service is furnished to the Nichols Telephone Company and also to the Twelve Corners and Mackville Company. The Nichols company pays a flat charge of approximately \$3.00 per year, per telephone. The Mackville company is on a message rate and pays a rate of 3 cents per call.

A petition signed by 13 subscribers of the **Black Creek** Telephone Company has been presented to the Commission protesting against the increase in the switching rate. No reasons are advanced by the petitioners for opposing the increases sought by the applicant, other than the expression of the belief of the signers that the increase in rates is unwarranted.

A second petition signed by 112 of the applicant's rural subscribers opposes the increases in rates requested by the Seymour-Shiocton company on the grounds that the rates now charged are excessive in consideration of the service rendered. In order that the Commission might be more fully advised as to the character of the service rendered by the applicant, it has had its service department make a thorough investigation of the petitioner's operating prac-

tices. Any changes that may be made in the applicant's present schedule will be made with the findings of our service department fully in mind. Our service records in the past have indicated that the service rendered by the applicant has not been up to the standards laid down by the Commission. However, since our decision* of May 25, 1920, the applicant has spent considerable money improving several of its rural leads and extensive renewals within the exchange limits have also resulted in a much better grade of service.

PROPERTY.

Aside from the central office and subscriber station equipment already mentioned, the applicant has an investment in 178 miles of poles and 1,083 miles of wire. Cable plants of considerable proportion are also maintained in the Seymour and Black Creek exchanges.

The total investment in this property according to the applicant's books was \$70,431.68 on December 31, 1920. The detail of book value was as follows:

TABLE II.

BOOK VALUE OF PROPERTY.

SEYMOUR-SHIOCTON TELEPHONE COMPANY.

DECEMBER 31, 1920.

Intangibles	\$462 50
Land and buildings.....	645 93
Central office equipment.....	3,918 53
Station equipment	15,163 22
Exchange lines	42,269 32
Toll lines	6,172 16
General equipment	1,800 02

TOTAL PLANT AND EQUIPMENT..... \$70,431 68

The above investment is equivalent to \$81.33 per station, which is considerably in excess of the average investment found by the Commission in its valuation of similar plants. The average investment per telephone of 11 exchanges valued by the Commission on pre-war figures was \$46.37.

* See Commission Leaflet No. 103, p. 876.

There were, however, exchanges in this group that ran considerably beyond the average investment just stated, and it may be that the reproduction cost of the Seymour-Shiocton company would exceed this average.

An approximate valuation made by our engineering department November 1, 1917, for the purpose of stock and bond issues placed a reproduction cost of \$52,177 upon the applicant's system. The final summary of this valuation appears in TABLE III.

TABLE III.

FINAL SUMMARY — APPROXIMATE VALUATION.

SEYMOUR-SHIOCTON TELEPHONE COMPANY.

NOVEMBER 1, 1917.

	<i>Reproduction Cost</i>	<i>Reproduction Cost Less Depreciation</i>
Land	\$150	\$150
Distribution system	41,150	33,204
Buildings and miscellaneous structures.....	400	320
Exchange equipment	2,178	1,656
General equipment	1,280	975
TOTAL	\$45,158	\$36,305
Add 12 per cent. for overhead, etc.....	5,419	4,357
TOTAL	\$50,577	\$40,662
Materials and supplies.....	1,600	1,600
TOTAL	\$52,177	\$42,262

The above reproduction cost is equivalent to an average investment of \$67.35 based upon the number of telephones the company had in service December 31, 1917.

Since the date of the above valuation the applicant has reported the following additions to plant:

Year ending December 31, 1918.....	\$1,839 96
Year ending December 31, 1919.....	1,664 10
Year ending December 31, 1920.....	1,927 63
First nine months of 1921.....	2,597 00
TOTAL ADDITIONS	\$8,028 69

The above additions together with our approximate reproduction cost of November 1, 1917, would indicate a reproduction cost of the present time of about \$60,206. This amount should be credited, however, with \$1,800 which represents the sale price of certain outlying property that the applicant sold during the present year to the Nichols Telephone Company. Making the above correction we have a reproduction cost of \$58,406, which is equivalent to \$72.73 per telephone, based on the number of telephones reported in service at the time of the hearing. Based upon the number of telephones reported in the company's annual report to the Commission for December 31, 1920, the average is \$67.35 per telephone. Considering the fact that the applicant operates three exchanges, two of which have less than 200 subscribers, we believe that the sum of \$58,406 represents a fairly reasonable value of the applicant's property for rate-making purposes and that the same may be used as a rate base in the present case without injustice to either the company or its subscribers.

The company's balance sheet for December 31, 1920, shows capital stock issued in excess of the above fair value. Offsetting this is the company's book value which is approximately \$12,000 in excess of our estimate of reproduction cost.

The balance sheet as of December 31, 1920, is set forth in TABLE IV.

TABLE IV.

BALANCE SHEET—SEYMOUR-SHIOCTON TELEPHONE COMPANY.

DECEMBER 31, 1920.

<i>Assets</i>		<i>Liabilities</i>	
Plant and equipment.....	\$70,431 68	Capital stock.....	\$65,000 00
Cash.....	38 45	Accounts payable.....	802 30
Due from subscribers and agents.....	1,280 62	Accrued liabilities not due.....	1,065 33
Prepayments.....	75 00	Depreciation reserve.....	7,405 82
		Surplus (debit).....	2,447 70
TOTAL.....	\$71,825 75	TOTAL.....	\$71,825 75

A return of 8 per cent. on a fair value of \$58,406 will amount to \$4,672.08 annually. Depreciation, we believe,

should be computed at 6 per cent. This requirement will be \$3,504.36 annually and makes the capital charge for return and depreciation equal to \$8,176.84.

OPERATING EXPENSES.

The statement of the applicant's revenues and expenses for the years ending December 31, 1917, 1918, 1919, and 1920, appear in the following tabulation:

TABLE V.

STATEMENT OF REVENUES AND EXPENSES,

SEYMOUR-SHIOCTON TELEPHONE COMPANY, FOR THE YEAR ENDING
DECEMBER 31.

<i>Operating Expenses:</i>	1917	1918	1919	1920
Exchange revenues.....	\$11,253 16	\$11,026 84	\$12,465 55	\$14,765 77
Toll revenues.....	3,865 47	4,588 95	6,381 95	6,150 54
Miscellaneous revenues.....	167 00	230 60	391 70	150 00
TOTAL.....	\$15,285 63	\$15,846 39	\$19,239 20	\$21,066 31
Deductions from revenues..	None	1,914 69	3,754 48	4,223 28
TOTAL OPERATING REVENUES.....	\$15,285 63	\$13,931 70	\$15,484 72	\$16,843 03
<i>Operating Expenses:</i>				
Repairs to wire plant.....	\$1,174 92	\$1,628 07	\$2,005 21	\$2,117 61
Repairs to equipment.....	266 82	92 45	65 92	348 85
Station removals and changes	49 50	38 00	7 00	37 00
Other maintenance expenses..	145 91	220 57	491 75	196 18
TOTAL MAINTENANCE....	\$1,637 15	\$1,979 09	\$2,569 88	\$2,699 64
Operators' wages.....	\$2,788 50	\$3,005 05	\$4,506 40	\$6,326 19
Other traffic expenses.....	341 98	599 04	628 22	531 77
TOTAL TRAFFIC EXPENSES	\$3,130 48	\$3,604 09	\$5,134 62	\$6,857 96
General office salaries and other general expenses..	\$5,775 38	\$1,781 00	\$2,138 50	\$1,711 80
TOTAL GENERAL EXPENSES	\$5,775 38	\$1,781 00	\$2,138 50	\$1,711 80
TOTAL OPERATING EXPENSES.....	\$10,543 01	\$7,364 18	\$9,843 00	\$11,269 40
Net telephone operating revenue.....	\$4,742 62	\$6,567 52	\$5,641 72	\$5,573 63
Taxes.....	240 00	300 00	600 00	619 47
TELEPHONE OPERATING INCOME.....	\$4,502 62	\$6,267 52	\$5,041 72	\$4,954 16

No data are at hand to indicate the trend of the 1921 operating performance, excepting certain general statements made at the time of the hearing by the applicant's witness. In the absence of the necessary statements of revenues and expenses for any period of 1921, it appears that we can give consideration only to the results of 1920 and those preceding years.

The revenues for 1920 as shown in TABLE V. reflect but seven months' operation under the increase in rates granted May 25, 1920.* Had the schedule authorized at that time been effective for the entire year, the revenues would have been in excess of the amount reported by \$1,339.78. In making this calculation due consideration has been given to the revenues arising from new subscribers acquired during the year 1920.

The telephone operating income for the year 1920 had the newly authorized schedule been in effect for the entire year would have been \$6,293.94 instead of \$4,954.16. The difference between this amount which is the amount available for return and depreciation and the actual requirements as we have computed them in this case (\$8,176.84), is \$1,882.90. It would appear, therefore, that the applicant is entitled to relief in proportion to this amount unless it can be shown that the applicant's operating expenses are unreasonable.

The average expense per telephone for the year 1920, excluding any allowances for depreciation and return, was \$12.81. This average is not abnormal and is, we believe, very reasonable when consideration is given to the fact that the applicant operates three exchanges, two of which are so small as to naturally cause a high operating expense per telephone under conditions attendant upon twenty-four-hour service.

The applicant's service has been improved to such an extent since the issuance of our last order that we feel a full return on its investment can now be authorized. There are a few minor details relative to service which still need

* See Commission Leaflet No. 103, p. 876.

attention, but we have assurance that these will be cared for as soon as the necessary materials can be acquired. The order that we issue will therefore be contingent upon the applicant fully complying with all the requirements set forth in our Standards of Service for Telephone Companies.

In order to produce the necessary revenues to fully meet the requirements of the applicant, the following net schedule must be inaugurated:

	<i>Net Per Year</i>
Business, one-party	\$36 00
Business, two-party	33 00
Business, four-party	30 00
Residence, one-party	24 00
Residence, two-party	21 00
Residence, four-party	18 00
Rural, within 6-mile radius.....	20 00
Rural, beyond 6-mile radius.....	20 00
For each mile or fraction thereof beyond 6-mile radius, \$3.00 per mile.	
Business extension	7 20
Residence extension	6 00
Switched telephones	7 20

It is, therefore, ordered, That the applicant, the Seymour-Shiocton Telephone Company, be, and the same hereby is, authorized to discontinue its present schedule of rates and to substitute therefor the following charges:

	<i>Per Month</i>	
	<i>Gross</i>	<i>Net</i>
Business, one-party	\$3 25	\$3 00
Business, two-party	3 00	2 75
Business, four-party	2 75	2 50
Residence, one-party	2 25	2 00
Residence, two-party	2 00	1 75
Residence, four-party	1 75	1 50
	<i>Per Quarter</i>	
	<i>Gross</i>	<i>Net</i>
Rural, within 6-mile radius.....	\$5 75	\$5 00
Rural, beyond 6-mile radius (plus 75 cents per quarter, per mile, or fraction thereof).....	5 75	5 00
Switching charge	2 00	1 80

All bills are payable in advance and rules now on file with the Commission governing the method of payment shall continue to be effective, excepting that charges for switching service are due quarterly in advance under the same rules as those governing rural subscriber payments.

The Commission retains jurisdiction to amend, change or revoke all or any part of the above authorized schedule for failure on the part of the applicant to provide a grade of service consistent with the requirements laid down in the Commission's Standard of Service.

Dated at Madison, Wisconsin, this thirty-first day of December, 1921.*

In re APPLICATION OF THE EUREKA TELEPHONE COMPANY
FOR AUTHORITY TO INCREASE RATES.

U-2617.

Decided December 31, 1921.

Former Order as to Number of Subscribers on Farm Lines Rescinded.

OPINION AND DECISION.

Application was filed November 29, 1921, by the Eureka Telephone Company for authority to increase its rates. The lawful rates of applicant now in effect are as follows:

	<i>Per Year</i>
Business, one-party	\$30 00
Business, two-party	27 00
Business, three- and four-party.....	24 00
Residence, one-party	24 00
Residence, two-party	21 00
Residence, three- and four-party.....	18 00
Rural, business	24 00
Rural, residence	21 00
Switching service	7 50
Answering telephone	6 00
Extension bell	3 00

* On the same date increased rates were authorized *In re Hazel Green Telephone Company* (U-2508).

Application is made to increase the switching rate and also to have amended that portion of the Commission's order* issued July 30, 1921, requiring the company to change all local lines to three- and four-party lines.

Hearing in the above-entitled matter was held December 13, 1921, at Madison, Wisconsin. *Wm. Wegwart*, president, appeared for and in behalf of the petitioner. There were no appearances in opposition.

In making a rate investigation, it is customary to estimate the probable revenue which the utility will obtain under the rates authorized. The computations covering this matter, in the case of a telephone company, must be based upon the subscriber data. These data are shown in TABLES X. and XI. of the annual report which is filed each year with the Commission. The data found in these two tables in the 1920 report of the Eureka Telephone Company were used in computing the probable revenue under the rates proposed by applicant and are shown in TABLE II. of the Commission's decision* issued July 30, 1921. From petitioner's statements made at the hearing held December 13, 1921, it now appears that the number of switched subscribers was erroneously included in TABLE XI. of the annual report by the utility. As a consequence, our computations as shown in TABLE II. of the decision are in error due to our adding the switched subscribers shown in TABLE X. to the subscribers listed in TABLE XI. of the report.

The Commission has repeatedly called attention to the importance of correctly reporting the physical data asked for in the annual reports. These reports serve as the basis for many investigations which the Commission makes and hence they should be accurate and reliable.

The rates proposed by petitioner in its application filed May 17, 1920, decision* on which was issued July 30, 1921, were estimated to yield revenues amounting to \$10,743. According to the data now at hand, however, this amount

* See Commission Leaflet No. 117, p. 683.

is in excess of the correct figure by \$1,093, due to the duplication of switched subscribers.

At the hearing held December 13, 1921, petitioner withdrew its application to increase switching charges. The only question remaining then upon which action must be taken at this time relates to that portion of the July 30, 1921, decision* relating to lines having more than four subscribers.

Inasmuch as the estimated revenues have been involuntarily reduced due to the causes set forth herein, we are of the opinion that some modification should be made of our previous order.* The rescinding of that part of the order referred to will only offset a portion of the reduction in earnings. We are therefore withdrawing that part of the order referred to.

It is, therefore, ordered, That that portion of the Commission's order* of July 30, 1921, be rescinded which reads as follows:

"That the rates herein authorized shall be effective for service rendered on and after August 1, 1921, for all subscribers except those served on lines accommodating more than four local subscribers for whom the present rate shall be effective until such time as their lines shall be reduced to three- or four-party lines when the rate authorized above shall become effective for those subscribers also."

It is, therefore, ordered, That the rates authorized July 30, 1921,* for three- and four-party service shall be effective for service rendered all local subscribers connected to lines having in excess of four parties.

Dated at Madison, Wisconsin, this thirty-first day of December, 1921.

* See Commission Leaflet No. 117, p. 683.

In re APPLICATION OF THE BUCKEYE RIDGE COOPERATIVE
TELEPHONE COMPANY FOR AUTHORITY TO INCREASE
RATES.

U-2625.

Decided January 5, 1922.

Increase in Rates Authorized.

OPINION AND DECISION.

Application in the above-entitled proceeding was filed December 19, 1921, and a hearing was held at the office of the Commission January 4, 1922, at which the company was represented by its secretary, *Oscar Morterud*. No one appeared in opposition.

The rate at present in effect is \$1.00 per month. Applicant requests permission to charge \$3.75 per quarter, subject to an additional charge of 25 cents per quarter if not paid during the current quarter. It is claimed that the present rates are inadequate and do not provide sufficient revenue to pay a reasonable return upon the investment and to meet the depreciation charges.

The Buckeye Ridge Cooperative Telephone Company owns and operates a grounded telephone system in and in the vicinity of the village of Bloomingdale, Vernon County. About 100 local and rural subscribers receive service over the company's system. The switchboard is located in a private residence and according to the Minimum Wage Rulings of the Industrial Commission, the company is obliged to pay \$50.00 a month for the operation of the telephone central.

At the present time the company is composed of 53 stockholders who have invested altogether \$1,325. Those subscribers who are also stockholders own their own telephone instruments. The instruments used by the renters are all owned by the company. The stockholders have not received any dividends, at least not in recent years, so that it is contended that inasmuch as all subscribers have been paying the same rate, cost of service to the stock-

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holders is really greater than that charged to renters. The company is now making arrangements whereby all the instruments will be owned and maintained by the company.

The following statement has been filed by the company, purporting to show the revenues and expenditures for 1920:

Revenues:

Subscriber earnings	\$1,159 50
Supplies on hand.....	79 61
	<hr/>
TOTAL	\$1,239 11

Expenses:

Operator's salary	594 00
Secretary's salary	35 00
Directors' salary	6 00
Labor	176 25
Taxes	27 73
Supplies	218 78
Batteries	125 00
Bills payable	99 10
	<hr/>
TOTAL	\$1,281 81

Deficit	\$42 70
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According to this statement, it appears that the company sustained a loss of \$42.70 this past year. In this connection it should be observed that the testimony and evidence indicates that among these operating expenses are included items which should have been charged to a depreciation reserve and also to property and plant. A considerable amount of rebuilding has been done in order to maintain a satisfactory grade of service. In our estimation only about \$1,050 should be regarded as a direct operating expense for a twelve-months' period.

The applicant proposes to charge its subscribers \$15.00 a year, which rate will yield an annual income of \$1,500. An operating expense of \$1,050 will leave the company about \$450 for depreciation and interest. Ordinarily for a company of this size 14 per cent. is considered a fair and

reasonable depreciation and interest rate. This amount of \$450 for depreciation and interest will accordingly represent an investment or plant value of about \$3,200. Compared with valuations and investigations made of other telephone plants, we must conclude that this is a conservative figure for the company's plant value; an average investment of \$32.00 per station is less than what is generally found. The proposed rate, therefore, cannot be considered excessive and should, in our judgment, be authorized.

It is, therefore, ordered, That the Buckeye Ridge Cooperative Telephone Company be, and the same is hereby, authorized to discontinue its present rate and substitute for it a rate of \$3.75 per quarter if paid within the current quarter; a penalty of 25 cents is added if payment is made after the expiration of the quarter during which the service was rendered.

Dated at Madison, Wisconsin, this fifth day of January, 1922.*

In re APPLICATION OF THE WISCONSIN TELEPHONE COMPANY
FOR AUTHORITY TO INCREASE ITS RATES AT ITS MILWAU-
KEE EXCHANGE.

U-2556.

Decided January 9, 1922.

Value Determined — Increase in Rates Authorized.

Applicant, alleging that the expense of operating its telephone business, including its Milwaukee exchange, had materially increased within the past few years, particularly because of the average increase over normal costs of labor and materials of over 100 per cent., and that an increase in rates was necessary in order that it might derive income sufficient to meet operating expenses and pay a fair return, requested an increase in rates.

* On December 31, 1921, increased rates for rural telephone service were authorized *In re Dancy Telephone Company* (U-2612).

The Commission found that the total direct expenses for 1920, exclusive of taxes and depreciation, had increased 154 per cent. over the expenses for the year 1915, or on a per station basis had increased from \$13.66 per station in 1915 to \$23.12 in 1920, which showed an increase per station of \$9.46; that the revenues did not show a corresponding increase as the revenues for 1915 amounted to slightly over \$31.00 per telephone, while in 1920 the revenue per telephone was \$34.80, which showed an increase per telephone in revenues for the period of \$3.80 as against an increase in expenses of \$9.46.

In ascertaining the value of the company's property in Milwaukee, the Commission took the valuation as fixed in 1915, being \$5,350,000, and added thereto \$4,303,970 fixed capital additions to June 30, 1921, including interest thereon at 3 per cent., \$166,674 increase in value of materials and supplies, and \$100,000 additional working capital, and found a total value, as of June 30, 1921, of \$9,920,644.

The Commission found that the result of operations for the first ten months of 1921 extended to a yearly basis, would show an amount of \$993,106.89 available for depreciation and return under the present rates; that applicant's expenses for the year would be increased by approximately \$100,000, which would leave an amount available for depreciation and return of \$793,106.89; that a proper allowance for reserve for depreciation would be 3½ per cent. on \$9,448,936, the value of the depreciable property, or \$330,712.78; that a return of 8 per cent. on the value as found would require \$793,651.52, making total requirements for reserve for depreciation and return of \$1,124,364.30; that an increase in revenue therefore amounting to \$331,257.41 would be proper; that the company's estimate of increased revenue from the proposed rate amounted to \$508,284, or about \$177,000 in excess of requirements as found.

Held: That the company should be authorized to place in effect at its Milwaukee exchange on the first day of the month following the date of this order, its schedule of rates as proposed, except that the schedule so filed should be modified in its terms as specifically set forth in the order herein entered.

OPINION AND DECISION.

Application in this matter was dated July 23, 1921, and hearing was held at Milwaukee September 20, 1921. Appearances were: for the city of Milwaukee, *Clifton Williams*, city attorney, *W. J. Mattison*, assistant city attorney, *S. L. Odegard*, statistician, and *J. B. Hogarth*, accountant; for the city of West Allis, *Joseph E. Tierney*, city attorney; for the city of Wauwatosa, *A. B. Houghton*,

city attorney; for the Wisconsin Telephone Company, Miller, Mack and Fairchild, attorneys, by *Edwin S. Mack*, *W. R. McGovern*, vice-president and general manager of the Wisconsin Telephone Company.

The application of the Wisconsin Telephone Company in this case stated the present rates for service insofar as they are involved in this application, are as follows:

	<i>Net</i>
<i>Residence Service:</i>	<i>Monthly Rate</i>
One-party residence, unlimited.....	\$3 50
Two-party residence, unlimited.....	2 75
One-party measured, 67 calls per month.....	2 75
(Additional calls 2 cents each.)	
Four-party measured, 60 calls per month.....	2 00
(Additional calls 3 cents each.)	
One-party coin box service, guarantee of 2 calls per day, 9 cents; additional calls 3 cents each.	
Two-party coin box service, guarantee of 1½ calls per day, 6¾ cents; additional calls 3 cents each.	
Four-party coin box service, guarantee of 1 call per day, 5 cents; additional calls 3 cents each.	
Residence extension telephone, desk.....	\$0 60
Residence extension telephone, wall.....	50
<i>Private Branch Exchange Service:</i>	
(Operator to be Furnished by Subscriber.)	
<i>Residence, Intercommunicating No. 2 System:</i>	
Both-way trunk	3 50
Incoming trunk line	2 50
Each station in same building with receiving station.....	1 00
Each station outside of building, but located on same premises and at distance not exceeding 300 feet from receiving station	2 00
Battery circuit	1 00
<i>Rural Service:</i>	
(Outside Base Rate Area.)	
Business, rural party line station, within initial rural area as per sketch attached	3 00
Residence, rural party line station, within initial rural area as per sketch attached.....	2 00
Additional charge for each one mile or fraction thereof beyond	25

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Combination Service:

Milwaukee service schedule rate during period used.

Country service, three months or less, 50 per cent. of annual rate. Each additional month, one-twelfth of the annual rate until the total amount billed equals annual rate.

*Short Term Residence Service:**

Service for three months or less, 50 per cent of the annual rate.

Service for six months or less, 75 per cent of the annual rate.

Temporary Suspension of Service:

Upon advance written request, residence, unlimited, and measured, one- and four-party service will be suspended at one-half rate while the subscriber is away. No credit allowed if service is suspended for less than thirty consecutive days. Bills to be paid at full rate, credit being allowed on first bill rendered after service is restored.

FAIRY CHASM-FOX POINT-CEMENT COMPANY-WHITE FISH BAY RATES.

	<i>Net</i>
<i>Fairy Chasm Group:</i>	<i>Monthly Rate</i>
Single line, residence.....	\$14 96
Two-party line, residence.....	8 48
Four-party line, residence.....	5 37
<i>Fox Point Group:</i>	
Single line, residence.....	12 67
Two-party line, residence.....	7 33
Four-party line, residence.....	4 79
<i>Cement Company Group:</i>	
Single line, residence.....	10 38
Two-party line, residence.....	6 19
Four-party line, residence.....	4 22
<i>White Fish Bay Group:</i>	
Single line, residence.....	7 63
Two-party line, residence.....	4 81
Four-party line, residence.....	3 53

*Applies only to unlimited service for subscribers outside of base rate area.

	<i>Net</i>
	<i>Monthly Rate</i>
<i>Excess Exchange Line Mileage: *</i>	
One-party station, per quarter mile or fraction thereof..	\$0 46
Two-party station, per quarter mile or fraction thereof..	23
Four-party station, per quarter mile or fraction thereof..	12
<i>Toll Terminals:</i>	
One-party, desk or wall.....	2 50
<i>Private Lines: (Without Exchange Connection.)</i>	
Each instrument	42
First one-quarter mile of line or fraction thereof.....	83
For lines of one-half mile in length or more, per mile....	2 50
<i>Bridged Lines:</i>	
When subscribers' stations are located in separate exchange office areas, the subscriber shall, in addition to the scheduled rate for the service be charged 50 cents per month for each one-quarter mile line or fraction thereof for circuit necessary to connect the two exchange offices with which the subscribers' stations are served.	
<i>Excess Line Mileage:</i>	
Excess line mileage on business, residence or private branch exchange extension telephones installed outside building in which main telephone is located, per one-eighth mile	25
<i>Miscellaneous Equipment:</i>	
Ordinary extension bell.....	\$0 15
Extension bell with switch.....	25
Extension gong:	
6 inch gong without switch.....	25
6 inch gong with switch.....	35
12 inch gong without switch.....	90
12 inch gong with switch.....	1 00
Extension bells and gongs located out of doors and in open sheds will be charged for at double the above rates.	
Magneto generator, ordinary type.....	25
Cam lever, single.....	25
Each additional switch.....	15

* Mileage charge added to base rates of subscribers located outside exchange base rate area.

	<i>Rate Net Monthly</i>
Dry battery for special exchange and private line combinations	\$0 20
Special relay switch, to be used with private branch exchange service	25
Dummy receiver to hold down telephone switch hook when head receiver is used.....	50
Push button and buzzer circuit.....	15
Each auxiliary receiver.....	10
Additional head or hand receiver for private branch exchange operator	15

*Spring Jacks: **

<i>Code:</i>	<i>Installation</i>	<i>Maintenance</i>
J3	\$6 00	\$0 08 1/3
J4	7 00	8 1/3
J5	8 00	12 1/2
J6	9 00	12 1/2
J7	10 00	12 1/2
J8	12 00	16 2/3
J9	15 00	16 2/3
J10	18 00	16 2/3

Extra Directory Listing: *Net
Monthly Rate*

Name of any individual residing at residence listed in directory at residence.....	\$0 25
Name of individual, member same firm, listed as same business	25
(Sketch attached to application showing exchange area omitted from this decision.)	

The Wisconsin Telephone Company asks authority to alter and amend its rates and schedules for telephone serv-

* Jacks for different locations in residences when installed while the building is in course of construction. For completed buildings where the labor item is indefinite a survey of the premises should be made before quoting final rates, so as to ascertain the amount of material and labor required. An installation charge of \$2.00 will be made for one additional jack when same is desired after the original installation.

ice at its Milwaukee exchange by putting in effect the following schedule:

Residence Service:

One-party residence, unlimited.....	\$4 50
Two-party residence, unlimited	4 00
One-party measured, 75 calls per month.....	3 75
(Additional calls 4 cents each)	
Four-party measured, 60 calls per month.....	2 50
(Additional calls 4 cents each)	
Coin box, residence service of all classes, except service for semi-public locations, i. e., residences with roomers or boarders	Discontinue
Two-party, coin box, semi-public residence, guarantee 2 calls per day at 5 cents each. (Additional calls 4 cents each)	
Residence extension telephone.....	75

Private Branch Exchange Service:

(Operator to be Furnished by Subscriber.)

Residence, Intercommunicating No. 2 System:

Both-way trunk, same rate as one-party, residence.	
Incoming trunk line.....	Discontinue
Each station in same building with receiving station..	\$1 50
Each station outside of building, but located on same premises and at distance not exceeding 300 feet from receiving station	2 00
Battery circuit	1 57

Rural Service:

(Outside Base Rate Area.)

Business, rural party line station, within initial rural area as per sketch attached.....	3 75
Residence, rural party line station, within initial rural area as per sketch attached.....	3 00
Additional charge for each one mile or fraction thereof beyond	40
Combination service	Discontinue
Short term residence service.....	Discontinue
Temporary suspension service.....	Discontinue

Fairy Chasm-Fox Point-Cement Company-White Fish Bay Rates:

Exchange base rates, plus excess exchange line mileage.

	<i>Net</i>
<i>Excess Exchange Line Mileage: *</i>	<i>Monthly Rate</i>
One-party station, per quarter mile or fraction thereof..	\$1 00
Two-party station, per quarter mile or fraction thereof..	50
Four-party station, per quarter mile or fraction thereof..	25
Toll terminals	Discontinue

Private Lines:

(Without Exchange Connection.)

Each instrument	50
Each quarter mile of line or fraction thereof, when line is entirely located on same premises.....	1 00
Minimum charge when line extends from one premise to another, first one-quarter mile of line or fraction thereof	2 00
Each additional one-quarter mile of line or fraction thereof	1 00

Bridged Lines:

When subscribers' stations are located in separate exchange office areas, the subscriber, in addition to the scheduled rate for the service, shall be charged \$1.00 per month for each one-quarter mile of line or fraction thereof for circuit necessary to connect the two exchange offices with which the subscribers' stations are served.

Excess Line Mileage:

Excess line mileage on business, residence, or private branch exchange extension telephones installed outside building in which main telephone is located, but entirely within same premises, per one-eighth mile.....	50
Minimum charge when line extends from one premise to another, first one-quarter mile of line or fraction thereof	2 00
Each additional one-quarter mile of line or fraction thereof	1 00

Miscellaneous Equipment:

A charge of \$2.00 will be made for the installation of miscellaneous equipment installed after the original installation of the main station. One \$2.00 charge will cover all miscellaneous equipment installed at one time.

Ordinary extension bell.....	25
Extension bell with switch.....	40

* Mileage charge added to base rate of subscribers located outside exchange base rate area.

Extension gong:

6-inch gong without switch.....	\$0 40
6-inch gong with switch.....	55
12-inch gong without switch.....	1 00
12-inch gong with switch.....	1 15

Extension bells and gongs located out of doors, outside of buildings, and in open sheds within 300 feet of main telephone, will be charged for at double the above rates.

Magneto generator, ordinary type.....	25
Cam lever, single.....	25
Three-way cam lever	60

Dry battery for special exchange and private line combinations	5
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Special relay switch to be used with private branch exchange service	25
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Long desk stand cords:

8 feet	10
10 feet	20
12 feet	30

Cords in excess of 12 feet to be provided only in special cases at the option of the company and in standard lengths at not less than 5 cents per month for the length of cord supplied for each foot in excess of 6 feet.

Push button and buzzer circuit.....	25
Each auxiliary receiver.....	15
Additional head or hand receiver.....	15
Additional P.B.X. operator's set (breast transmitter, receiver, cords and plug).....	60

Spring Jacks:

Spring jack (residence), initial installation to be paid for at cost, and, in addition, monthly charge of.....	15
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Extra Directory Listing:

Name of any individual residing at residence listed in directory at residence.....	50
Name of individual, member same firm, listed as same business	50

Directory Listing Physicians, Christian Scientists, Etc.:

When physicians, christian scientists, dentists, osteopaths, or others whose title indicates a profession or business and are not subscribers to a business telephone listed in directory and desire service in their residence the title "Dr.," or "C. S.," etc., will be considered business listing and business rates will apply.

(Sketch attached to application omitted from this decision.)

Applicant calls attention to the fact that the expense of operating its telephone business, including its Milwaukee exchange, has materially increased within the past few years, particularly because of the average increase over normal costs of materials and labor of over 100 per cent., and alleges that it is necessary that the rates which it may charge should be increased in order that it may derive an income from its Milwaukee exchange sufficient to meet its operating expenses and to afford a reasonable return.

A brief resume of the recent history of telephone rates in Milwaukee may be in point. On April 18, 1916, this Commission entered its order* upon a complaint of *Peter Bogart et al. v. Wisconsin Telephone Company*, by the terms of which order a schedule of rates lower than that effective prior to the date of the order was placed in effect for certain classes of service furnished at the Milwaukee exchange. The schedules which were modified by the terms of that order and which are before us for consideration in this case included rates for the following classes of service:

- Residence, measured, one-party service.
- Residence, unlimited, two-party service.
- Residence, nickel, one-party service.
- Residence, nickel, two-party service.
- Residence, nickel, four-party service.
- Excess radius charge for service beyond exchange limits.

Besides modifying the rates for the above classes of residence service, the order* of April 18, 1916, authorized the company to discontinue its four-party unlimited residence service within a reasonable time and to place in effect a rate for four-party measured residence service of \$24.00 per year for two pay calls or less per day and a rate of 3 cents per call for excess pay calls.

On January 30, 1920, this Commission entered its order† upon the application of the Wisconsin Telephone Company for authority to change its regular business lines and private branch exchange trunks to an exclusively measured

* See Commission Leaflet No. 54, p. 217.

† See Commission Leaflet No. 100, p. 1591.

service basis and to fix rates therefor. By the terms of that order the company was authorized to discontinue its unlimited business service, including unlimited service to private branch exchanges used for business purposes, and to substitute therefor a schedule of measured service rates which was expected to produce and has produced an increased revenue from the classes of service concerned. No modification of the order* of January 30, 1920, is now sought, but the company's operations have reached a point where it considers a modification of its schedules for residence service to be essential. Insofar as the principal classes of residence service are concerned, the proposed changes are as follows:

	<i>Per Month</i>	
	<i>Present Rate</i>	<i>Proposed Rate</i>
One-party, unlimited service.....	\$3 50	\$4 50
Two-party, unlimited service.....	2 75	4 00

One-party, Measured Service:

Present rate, \$2.75 per month for 67 calls or less, with additional calls at 2 cents each.

Proposed rate, \$3.75 per month for 75 calls or less, with additional calls at 4 cents each.

Four-party Measured Service:

Present rate, \$2.00 per month for 60 calls or less, with additional calls at 3 cents each.

Proposed rate, \$2.50 per month for 60 calls or less, with additional calls at 4 cents each.

Coin Box Service:

Present rate, one-party service, guarantee of 2 calls per day, 9 cents, with additional calls at 3 cents each.

Present rate, two-party service, guarantee of 1½ calls per day, 6¾ cents, with additional calls at 3 cents each.

Present rate, four-party service, guarantee of one call per day, 5 cents, with additional calls at 3 cents each.

Proposed rate, all coin box service to be discontinued except service for semi-public locations such as residences with roomers or boarders. For this service it is proposed to continue the two-party coin box service, with a guarantee of two calls per day at 5 cents each and 4 cents each for additional calls.

* See Commission Leaflet No. 100, p. 1591.

<i>Rural Service (Within Initial Rural Area):</i>	<i>Per Month</i>	
	<i>Present Rate</i>	<i>Proposed Rate</i>
Business	\$3 00	\$3 .5
Residence	2 00	3 00
Additional charge for each one mile or fraction thereof beyond	25	40

The application covers changes in other classes of service, all of which are fully set forth above in the list of rates copied from the application, but the foregoing comparison of present and proposed rates covers the principal classes of service involved.

The company has submitted an estimate of the effect of the proposed changes, which estimate is based upon the average number of stations in service during the first half of 1921 and which indicates that the total increase resulting from the proposed changes would be \$508,284 per year.

In support of its application exhibits dealing with the financial status of the exchange were introduced at the hearing. Of these the more important are the exhibits dealing with the value of the property and with the results of operations under present and proposed rates. As a basis for the valuation of the property, the company has used the valuation as of January 1, 1915, amounting to \$5,350,000 as fixed in the *Bogart Case*.* To this it has added \$4,178,612 covering additions from January 1, 1915, to June 30, 1921, and bringing the total to \$9,528,612. To this it has added the following:

Increase in materials and supplies.....	\$166,674
Construction work in progress.....	214,099
Additional working capital.....	135,000
TOTAL	\$515,773

This brings the total valuation as set up in the company's exhibit as of June 30, 1921, to \$10,044,385. The

* See Commission Leaflet No. 54, p. 217.

other exhibit to which reference will be made at this point is reproduced in the following tabulation:

	<i>Operations for Year 1920 Present Rates</i>	<i>*Operations for Year 1921 Present Rates</i>	<i>*Operations for Year 1921 with Proposed Rates</i>
Investment.....	\$9,645,129 00	\$10,044,385 00	\$10,044,385 00
Revenue.....	2,779,146 00	3,001,927 00	3,510,211 00
Expense.....	2,605,404 00	2,952,095 00	2,978,707 00
Return.....	183,742 00	49,832 00	531,504 00
Per cent. return.....	1.91	0.50	5.29

* Revenue and expense based on six months actual and six months estimated.

It will be noted that in this exhibit the company has estimated that if the proposed rates had been effective for the year 1921 there would have been a return on the investment as set up by it of 5.29 per cent. The exhibit does not separately show the amount provided for depreciation. This provision, however, is included in the total expense shown above.

Other exhibits dealt with the increased expenses which the exchange has had to meet. In view of the very radical nature of the changes in operating expenses in the telephone business in the past few years, it may be well to set out some of the more important facts regarding these changes as affecting the Milwaukee exchange. For this purpose it will probably be fair to compare the year 1915 with the year 1920. At December 31, 1915, the company's reports show that there were a total of 54,221 stations in the Milwaukee exchange and the corresponding report for 1920 shows a total of 80,653 stations. In 1915 the traffic expense which is made up largely of operators' wages, amounted to \$312,733.40, or an amount equal to \$5.77 for each station in service at the end of the year. In 1920 this expense was \$1,100,781.99, or an amount equal to \$13.65 for each instrument reported in service at the end of the year. The increase in the traffic expense, not in total but for each telephone instrument in use at the end of the year, was about 136 per cent. The increase in the total amount, disregarding the number of instruments in service, was over 250 per cent. Other expenses, that is those

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involved in the maintenance of the plant and in the commercial and general administration, have likewise shown material increases both in total and when related to the number of telephones, except that the general expense, that is the overhead supervisory cost and the general clerical work of handling the business, has increased only about 8 cents per telephone. The total direct expenses, leaving out of consideration for the moment such items of cost as taxes and depreciation, increased from \$739,648.67 in 1915 to \$1,879,709.45 in 1920, or an increase in the total of 154 per cent. The total of these expenses per telephone in service increased from \$13.66 to \$23.12. That is, the direct expense of furnishing telephone service in Milwaukee before giving any consideration to taxes, depreciation, or return on the property was about \$9.46 higher for each instrument in service in 1920 than it was in 1915. Wages of switchboard operators alone account for \$5.40 of this increase. In other words, switchboard operators' wages increased \$5.40 per station from 1915 to 1920, and all other direct expenses increased \$4.06 per station over the same period.

The revenues when placed on a per station basis do not show a corresponding increase. Revenues for 1915 amounted to very slightly over \$31.00 per telephone after deducting Licensee Revenues—Dr. For 1919 the revenue per station was approximately \$30.60, or slightly less than the unit revenue of 1915. In 1920 this was increased to \$34.80, in large part at least as the result of the order * of January 30, 1920, modifying rates for business service. The increase over the period from 1915 to 1920 in unit revenues was about \$3.80 as compared with the increase in direct expenses of \$9.46. During the same period there was also an increase in the average investment per telephone.

The order * of January 30, 1920, modifying the rates for business service was based on conditions at that time and

* See Commission Leaflet No. 100, p. 1591.

contained the full modification which the Commission found it was proper to make under the then existing conditions. It is our opinion that conditions have not so materially changed since that date that any further revision of the rates for business service is now called for. It follows, therefore, that if a revision of the rates is now required the modifications which are necessary should be applied to the residence classes of service.

PROPERTY VALUE.

In the *Bogart Case* * previously cited, the valuation of the property was placed at \$5,350,000 as of January 1, 1915. This was based in large part upon an appraisal of the property as of January 1, 1911, giving effect to additions from that date to December 31, 1914. In the valuation of January 1, 1911, materials and supplies were included in the amount of \$50,213. In the *Bogart Case* * the Commission stated its conclusion that the proper allowance for working capital was between \$50,000 and \$100,000. So far as these items are reflected in the valuation as of January 1, 1915, therefore, it appears that somewhere from \$100,213 to \$150,213 was included for materials and supplies and cash working capital.

As we have previously stated, the company in setting up its figure for the investment of \$10,044,385 as of June 30, 1921, has included in addition to the amounts used in the *Bogart Case* * \$166,674 for the increase in materials and supplies and \$135,000 for additional working capital—a total increase for the two purposes of \$301,674, whereas in the *Bogart Case* * the total for materials and supplies and cash working capital ranged from \$100,213 to \$150,213. The application of the increases now suggested by the company would give a total for these items somewhere between \$401,887 and \$451,887. There can be no question as to the propriety of allowing additional amounts for materials and supplies and cash working capital. We are

* See Commission Leaflet No. 54, p. 217.

not convinced, however, that the total claimed is necessary. The direct operating expenses of the company which were \$803,789.34 in 1916 will be, on the basis of the first ten months of the year, \$1,952,708.58 for 1921. Taxes will add approximately \$200,000 to this figure. We believe that one-twelfth of this total, or about \$177,000, is a reasonable allowance for cash working capital insofar as required for operating purposes, under present conditions.

Inasmuch as the *Bogart Case* * did not state specifically the amount which was therein provided for working capital, it is impossible to compare this figure with entire accuracy with the allowance made in that case, but if an additional allowance of \$100,000 is made for cash working capital at this time, such allowance should be substantially correct.

Judging from the growth in the volume of business and in the investment in the plant and bearing in mind also the increased price level of materials and supplies over that of January 1, 1911, it would seem that the amount suggested by the company as an additional allowance in its valuation for materials and supplies is reasonable and should be accepted for the purposes of this case.

In the company's statement of its investment at June 30, 1921, is included \$214,099 for construction work in progress. The company points out that it has not been its custom to charge interest to construction on property during the construction period. This is in accordance with the practice as found in the *Bogart Case*. * In principle we believe that the inclusion of construction work in progress in the rate base is erroneous. On the other hand, some allowance for interest during construction is proper and, while we exclude from consideration the construction work in progress, we have given consideration to an allowance for interest during construction.

From January 1, 1915, to June 30, 1921, there was added to the fixed capital chargeable to the Milwaukee exchange

* See Commission Leaflet No. 54, p. 217.

\$4,178,612. If interest during construction is included at 3 per cent. which in view of all the conditions we believe is substantially a correct figure, there would be included in the value at June 30, 1921, in lieu of the item of \$214,099 for construction work in progress, an allowance of \$125,358 for interest during construction.

Further than these changes which have been discussed we see no occasion for modifying the investment at June 30, 1921, as claimed by the company. The revised statement of the value which may be used for the purposes of this case is as follows:

Value, January 1, 1915.....	\$5,350,000
Fixed capital additions to June 30, 1921, including 3 per cent. interest	4,303,970
Increase in materials and supplies.....	166,674
Additional working capital.....	100,000
TOTAL AS OF JUNE 30, 1921.....	\$9,920,644

RESULTS OF OPERATION FOR 1921.

The Commission has been furnished with reports by months covering the results of operation for the first ten months of 1921. If these results are expanded to a yearly basis by adding 20 per cent. to all of the figures the following statement of revenues and expenses results:

Operating Revenues:

Exchange service revenues.....	\$3,163,758 72
Miscellaneous operating revenues — net deduction.....	114,714 73
TOTAL OPERATING REVENUES	\$3,049,043 99

Operating Expenses:

Maintenance expense not including depreciation.....	445,794 12
Traffic expense	1,137,142 87
Commercial expense	263,515 28
General and miscellaneous expense.....	106,260 31
TOTAL ABOVE EXPENSES	\$1,952,712 58

Net telephone operating revenue before depreciation.... \$1,096,331 41

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Deductions:

Uncollectable operating revenues.....	\$2,661 84	
Taxes assignable to operations.....	200,182 50	
		<hr/> \$202,844 34
OPERATING INCOME BEFORE DEPRECIATION.....	\$893,487 07	
Non-operating revenue, estimated.....	1,000 00	
		<hr/>
GROSS INCOME BEFORE DEPRECIATION.....	\$894,487 07	
Rent deductions	1,380 18	
		<hr/>
AVAILABLE FOR DEPRECIATION AND RETURN.....	\$893,106 89	

COMPANY'S ESTIMATES OF INCREASED EXPENSES.

The company has submitted statements showing the amount which it considers will have to be added to the operating expenses as shown for the first half of 1921 in order to bring the operations of the plant to a normal basis. The original estimate amounted to \$224,040 made up as follows:

Traffic (school)	\$100,000
Traffic (normal wage increases).....	8,900
Plant department	75,140
Commercial	30,000
General	10,000
	<hr/>
TOTAL	\$224,040

Later the company revised this estimate insofar as the commercial department was concerned to a total of \$81,000 which includes \$58,000 of cost of selling securities. The other commercial expenses included in the revised estimate, therefore, aggregate \$23,000.

The estimates as originally submitted by the company were in summary form only and did not furnish any basis for a judgment as to the reasonableness of the increases as set up in the summary. Because of this, we have called for details of these estimates in order that we might be able intelligently to judge of their reasonableness and these details have been furnished us by the company.

In its revised estimate the company indicates that the

cost of the school may be greater than in the original estimate, but no revision of the total for this item has been submitted. The revised estimate of the increased operating expenses, therefore, may be stated as follows:

Traffic (school)	\$100,000
Traffic (normal wage increases).....	8,900
Plant department	75,140
Commercial cost of selling securities.....	58,000
Commercial, other increases.....	23,000
General	10,000
<hr/>	
TOTAL	\$275,040

These will be considered in the order shown above.

The company has pointed out that during the first part of 1921 its operators' school was suspended. This was due in large part to the fact that with the industrial depression at that time it was possible to secure experienced operators without the necessity of training them in the school. The school was started some time in August, 1921, and the cost as stated by the company has been about \$12,000 per month. On this basis it represents that its claim for \$100,000 of additional expenses on account of the operation of the school is conservative. Our examination of the reported expenses and of the data which have been submitted in support of the company's contention leads us to conclude that we cannot properly make allowance for increased expense for conducting the school. Under the classification of accounts prescribed by the Interstate Commerce Commission, which is the classification under which the Wisconsin Telephone Company operates, the cost of conducting an operators' school for the Milwaukee exchange would be so accounted for that in the statement of monthly expenses which the company has submitted for the first ten months of 1921, this cost would appear under the heading Central Office Supplies and Expenses. An examination of this account as reported for the first seven months of 1921, which we understand was a period in which the operators' school was not conducted, shows an average charge to the

amount of \$11,591 per month. During August, September, and October, the average charges to this account were \$14,423 and during September and October, during which periods charges for the operators' school were presumably in full amounts, the average was \$16,456. During the last three months for which we have figures reported the average expense was less than \$3,000 in excess of the average for the seven months in which the school was not in operation and during the last two months of that period the average expense was less than \$5,000 in excess of the average for the first seven months. While these figures do not substantiate an allowance of \$100,000 a year for conducting the operators' school, they do indicate that probably because of the operation of the school there was a considerable added expense. However, consideration of this expense without reference to the amounts paid for operators' wages, appears to us to be misleading. During the first seven months of 1921 when the operators' school was not being conducted, operators' wages averaged \$73,231 a month. During the months of August, September, and October, 1921, the average operators' wages were \$69,734, or about \$3,500 a month less than the average for the first seven months. The average operators' wages for the first six months, upon which period the company originally predicated its claim for \$100,000 additional for conducting the operators' school, amounted to an average of \$74,178 per month, or more than \$4,000 a month above the average for August, September and October. It is true that the month of October shows a higher figure but we can hardly accept this figure for one month in the face of the experience of previous months as being conclusive. In view of the situation as to the combined expense for operators' wages and for central office supplies and expenses, we do not believe that the record in this case would justify an addition to the operating expenses based upon the first ten months of 1921 on account of the operation of the school.

The company's estimate of the increased expenses due to the operation of the wage scale appears to be reason-

able, particularly in view of the fact that operators' wages during recent months may have been somewhat less than the full normal level because of the employment of operators whose experience has not yet entitled them to the higher rates of pay provided by the schedule.

The company's estimate of the additional requirements in the plant department has been submitted in some detail. It consists partly of the increased rental of garages, partly of wages of additional employees, partly of increased wages to present employees, and partly of other items. It apparently represents the company's best estimate of what additional expense will be needed if all of the work which it has in mind is carried out. Whether the full amount of the expense would properly be considered as a charge against the average volume of business done during the first half of 1921 may be a question, but we believe that from \$50,000 to \$75,000 of additional expense is reasonably to be anticipated in this department. Maintenance expenses for the four months ended October 31, 1921, were about \$1,500 per month higher than the average of the first six months.

The company's estimate of \$58,000 as the cost of selling securities is based upon a selling cost of \$5.00 per hundred. The information needed to make any accurate estimate of the cost of selling securities is not yet available as we understand that the financing plans of the company have not been fully worked out, but from what information we have we doubt whether the selling cost will be as large as that estimated by the company. In technical commercial accounting there might be reason for treating this cost as an operating expense if incurred in connection with the sale of stock rather than the sale of bonds. However, if the company sells securities directly rather than through a banking house, its selling cost takes the place of the discount or commission ordinarily given to the banking house for handling the securities. In the case of a bond issue or any debt issue with definite term, costs of this nature are considered by the Commission as a part of the interest on the issue and are amortized over the life of the securities.

In the case of a stock issue with no definite term the amortization period of course cannot be based upon the life of the securities, but we think the principle still holds that expenses of this character constitute a part of the return. This is perhaps more generally true in the case of preferred stock issues carrying a definite dividend rate than in the case of common stock issues, since many of the elements which determine the salability of preferred stock, such as the rate of return, and the relation of the selling price to the par value, are governed by much the same principles as in the case of bond issues. The record in this case is not such as to convince us that any allowance should properly be made in the operating expenses for the cost of selling securities. We believe that a reasonable return upon public utility property is designed, among other things, to take care of such cost.

The other expenses of the commercial department amounting to \$23,000 and the increase in general expenses, some of which has already been made, we do not seriously question.

We have, as a result, estimates of increased expenses to be provided for ranging from \$91,900 to \$116,900. In view of the limits within which our estimate of the increased expenses falls, we believe that we may reasonably use an estimate of \$100,000 in arriving at the requirements of the company in this case.

DEPRECIATION.

We do not have the history of the depreciation reserves except for one or two years prior to the filing of the company's report for the year ended June 30, 1909. At the beginning of that year the aggregate reserve for the company was \$602,893.67. This total, apportioned on a property investment basis, would indicate a reserve of \$236,334.32 against the Milwaukee exchange. Since then the credits to the reserve on account of the Milwaukee exchange have been as shown in the column below headed Credits and the charges to the reserve have been as shown in the column headed Charges.

MILWAUKEE EXCHANGE.

WISCONSIN TELEPHONE COMPANY.
CHARGES AND CREDITS PER BOOKS.

<i>Year Ended June 30</i>	<i>Credits</i>	<i>Charges</i>
1909	\$197,400 45	\$2,515 03
1910	262,917 54	6,360 73
1911	277,655 85	7,531 53
1912	249,491 08	10,694 71
1913	287,989 25	35,027 50
Eighteen months to December 31, 1914..	492,975 40	123,602 54
<i>Year Ended Decem- ber 31</i>		
1915	359,450 54	80,863 40
1916	347,560 24	66,997 49
1917	360,080 47	126,984 89
1918	379,381 13	225,076 91
1919	450,086 68	*8,938 15
1920	393,951 29	161,470 24

* Credit.

If the reserve balance had been carried separately for the Milwaukee exchange it would have amounted to \$3,457,177.42 as of December 31, 1920. The fixed capital in the Milwaukee exchange at December 31, 1920, was \$9,311,167, not all of which is subject to depreciation. The history of the use of the reserve seems to clearly indicate that the provisions have been more than necessary to provide a safe margin for the purposes for which the reserve was set aside, though it must be appreciated that the call upon the reserve is likely to materially increase in the future.

In arriving at our rate base, we have made no deduction for accrued depreciation and have assumed depreciation reserves to be accumulated upon a sinking fund basis. In the case of the *Milwaukee Electric Railway and Light Company*, P. U. R. 1920-A, 361, we held that it was not

unreasonable to require annual interest at not less than $3\frac{1}{2}$ per cent. to be credited to this reserve. Opinions may differ as to the interest basis which is proper, for in fixing such interest basis consideration must be given to the fact that the reserves must at all times be subject to the uses for which they are set aside, even though they may be used from time to time for extensions and additions. Had depreciation been set aside separately by the Milwaukee exchange since 1909 (the reserve at that time amounting, we will say, to \$236,000) and annual credit made to the reserve on a basis of $3\frac{1}{2}$ per cent. of physical property with a further credit to the reserve of interest at 4 per cent. on reserve balances, the reserve as of December 31, 1920, would have amounted to substantially \$2,300,000 and without interest credits would have been in the neighborhood of \$1,750,000 after charging to the reserve the amounts actually charged as shown in the previous table. It is evident that the credits to this reserve for the Milwaukee exchange since 1909 have been excessive and that a charge to operating expenses equaling $3\frac{1}{2}$ per cent. of the depreciable property would have, so far as experience at present shows, been ample to supply a safe margin to meet losses on property retired from service in the Milwaukee exchange, to which exchange alone this discussion relates. The use of $3\frac{1}{2}$ per cent. for the purpose of this case is based upon the assumption that the company is correct in its claim that the charges to the depreciation reserve in the future will of necessity considerably exceed the charges in the past and during the war period.

AMOUNT OF INCREASE REQUIRED.

We have previously shown that the operations for the year 1921 based upon the results obtained for the first ten months would produce an amount available for depreciation and return of \$893,106.89. We have estimated the requirements for increased expenses based upon the volume of business existing in 1921 as \$100,000 as compared with the company's original estimate of \$224,040

and its revised estimate of \$275,040. This would leave as an amount available for depreciation and return \$793,106.89. As already shown, the value to be used as a rate base amounts to \$9,920,644. This includes certain elements of materials and supplies, working capital, and intangibles to which no percentage should be applied to make provision for depreciation. Starting with the valuation of the physical operating property as of January 1, 1911, as shown in the *Bogart Case*,* 17 W. R. C. 531, of \$3,764,439, we have to add to determine the amount of physical property upon which the percentage for depreciation is applied, the reported additions since that date, together with a reasonable provision for interest during construction. The amount of such additions for the three years subsequent to the valuation date and one-half of the additions for 1914 is shown in 17 W. R. C. 539. Up to the end of 1914 such additions amounted to \$1,380,527. From January 1, 1915, to June 30, 1921, the total amounted to \$4,303,970, making a total physical property value to which the percentage for depreciation should be applied of \$9,448,936. A charge to operating expenses for depreciation of 3½ per cent. of this amount would be \$330,712.78. An 8 per cent. return on the value of \$9,920,644 would require \$793,651.52, so that the total requirements, as we have estimated them for depreciation and return, would be \$1,124,364.30. Our estimate of the amount available with the volume of business as in 1921 and with expenses as they may reasonably be expected to continue was \$793,106.89. This would indicate that an increase in revenue amounting to \$331,257.41 would be proper.

The company's estimate of the amount of increased revenue which would be provided by the application of the proposed schedule is \$508,284, or about \$177,000 in excess of the requirements as we estimate them.

This raises the question as to what adjustment of the proposed schedule should be made. The most sweeping

* See Commission Leaflet No. 54, p. 217.

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change suggested by the company is the discontinuance of the four-party residence, nickel class of service now serving about 12,000 customers. As shown in the company's estimate of increased revenue, the present rate including the excess call revenue for this class of service averages \$19.95. Some recent figures dealing with this class of service compiled at the request of the Commission indicate that the present revenue is somewhat higher than this and that it has shown a tendency to increase somewhat since the discontinuance of the unlimited service for business places. With all business places on a measured service basis, many of the calls which formerly were originated at such business places and which terminated with the four-party residence nickel class are now originated with the residence telephones. Something like \$20.00 per telephone is probably the normal revenue from this class of service. The company's proposal to discontinue this class and to make the next available class of service the four-party measured class at \$30.00 per year would result in an increase of approximately 50 per cent. in the charge to the present four-party nickel subscribers. It is true that there would be twice as much service available for these subscribers. In view of the small number of excess calls from this class of telephones, however, and of the decline in the number of telephones in this class which indicates that those users having the larger requirements have to a large extent availed themselves of the four-party measured service, we question whether the actual service requirements of this class are double the amount of service available under the guarantee in the present rate.

The company has submitted a memorandum of the objections to the continuance of the four-party nickel service and has shown that in very few cities comparable with Milwaukee is such service furnished at the present time. However, the reasons presented, while all more or less cogent, are not so conclusive as to convince us that the four-party nickel class of service should be discontinued under present conditions. If the revenue requirements of the company

made necessary the full amount of the increase proposed by it, we believe there might be good grounds for discontinuing this class of service, but in view of the fact that the revenue requirements as we view them are not as great as estimated by the company and that because of this the full amount of the increase proposed need not be applied on the lower classes of service, we believe the four-party nickel service should be continued.

We have studied the company's schedule carefully and the modifications of the proposed rates which will be provided by the order in this case are such modifications as in our opinion are fully justified by the cost of the service. We have attempted also to make the modifications such that the schedule shall be reasonably well balanced, as it is important that there exist a workable commercial relationship between the charges for the several classes of service.

In doing this we will provide for a modification of the rates proposed by the company for the following classes of residence service:

- Two-party, unlimited.
- One-party, measured.
- Four-party, measured.
- Four-party, coin box.
- Rural.

Aside from the above we see no sufficient reason for authorizing excess radius charges beyond those authorized in other cases. The company has asked for excess radius charges for rural service of 40 cents per month for each one mile zone beyond the base rate area. Twenty-five cents per month is the rate in effect in a number of other places and we believe it reasonable. The company has also asked to change its excess radius charges for local classes of service beyond the base rate area from a basis of \$22.00 per mile as fixed in the *Bogart Case** to a basis of \$48.00 per mile. In Madison and in other places served by the company, the present basis is \$36.00 per mile and we see

* See Commission Leaflet No. 54, p. 217.

no adequate reason why more than this should be approved for the Milwaukee exchange. This should apply also to private lines, private branch exchange lines outside of main building, and all other classes to which a mileage is applied other than that for the regular rural service.

One exception to this general rule we believe should be made. This exception applies to the group of communities north of Shorewood, designated in the company's present schedule of rates as the Fairy Chasm Group, the Fox Point Group, the Cement Company Group and the White Fish Bay Group. Conditions of serving these groups of subscribers are different from the average conditions prevailing in the service of local subscribers beyond the exchange limits and special provision will be made for them in the rate schedule.

It is, therefore, ordered, That the applicant, the Wisconsin Telephone Company, be, and the same hereby is, authorized to place in effect for its Milwaukee exchange for service rendered on and after the first day of the month following the date of this order the schedule of rates which it has asked authority in this case to make effective except as that schedule is modified by the terms of this order.

It is further ordered, That the rates proposed by the company be, and the same hereby are, modified to provide the following:

	<i>Per Month</i>
Two-party, unlimited residence service.....	\$3 75
One-party, measured residence service, guarantee covering 75 calls	3 50
Four-party, measured residence service, guarantee covering 60 calls	2 25
Four-party, coin box, residence service, covering 1½ calls per day at 5 cents per call.	
Rural, residence service.....	2 75
Rural excess radius charges for each mile zone of excess radius	25
Local excess radius and other mileage charges to be based on \$36.00 per year, per mile of excess radius.	
Excess calls for residence, measured service, 3 cents per call.	
Excess calls for residence, coin box service, 4 cents per call.	

<i>Fairy Chasm Group:</i>		<i>Per Month</i>
Single party, residence		\$18 00
Two-party, residence		10 50
Four-party, residence		6 50
<i>Fox Point Group:</i>		
One-party, residence		15 00
Two-party, residence		9 00
Four-party, residence		5 75
<i>Cement Company Group:</i>		
One-party, residence		12 50
Two-party, residence		7 75
Four-party, residence		5 00
<i>White Fish Bay Group:</i>		
One-party, residence		10 00
Two-party, residence		6 50
Four-party, residence		4 50

The company shall file schedules in accordance with this order, which schedules may contain reasonable provisions subject to the approval of the Commission to secure prompt payment of accounts.

Dated at Madison, Wisconsin, this ninth day of January, 1922.

In re APPLICATION OF THE HOME TELEPHONE COMPANY FOR
AUTHORITY TO INCREASE RATES.

U-2524.

Decided January 19, 1922.

Former Order Modified as to Switching Rates.

SUPPLEMENTARY OPINION AND DECISION.

On December 27, 1921, the Commission issued an order* fixing a new schedule of rates for telephone service for the Home Telephone Company of Durand but providing that

* See Commission Leaflet No. 122, p. 524.

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such rates should not be made effective until certain changes in service conditions were accomplished. Jurisdiction was retained in order that such supplementary order as might be proper could be issued. It now appears that insofar as the new rates apply to switching service there is no necessity for postponing their application until overhauling of the local plant is complete. There is no question as to the reasonableness of the switching rate and the order * of December 27, 1921, will, therefore, be modified as regards this portion of the schedule.

It is, therefore, ordered, That the Home Telephone Company may make effective for switching service rendered on and after February 1, 1922, the switching rate provided by our order * of December 27, 1921, and that collections for the first quarter of 1922 shall be made on the basis of 38 $\frac{1}{3}$ cents per telephone for the month of January and 50 cents per telephone for each of the months of February and March.

Dated at Madison, Wisconsin, this nineteenth day of January, 1922.

* See Commission Leaflet No. 122, p. 524.

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American Telephone and Telegraph Company
Legal Department
195 Broadway, New York, N. Y.

COMMISSION LEAFLET No. 124

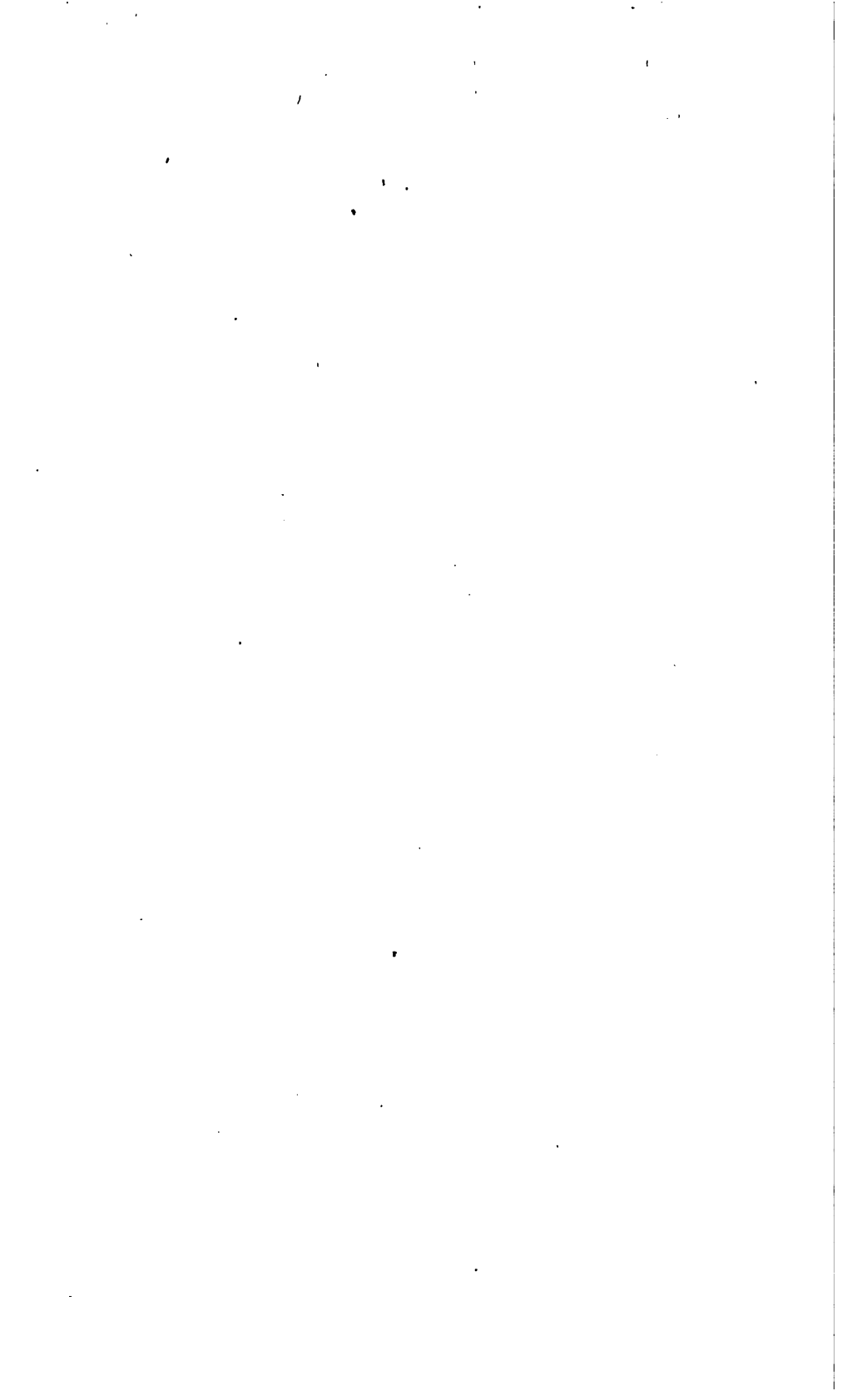
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and
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APRIL 1, 1922



CALIFORNIA.

Railroad Commission.

In re APPLICATION OF ASSOCIATED TELEPHONE COMPANY FOR
AN ORDER AUTHORIZING THE ISSUANCE OF BONDS.

Application No. 7413 — Decision No. 10006.

Decided January 20, 1922.

**Issue of Bonds Authorized — Earnings Used for Sinking Fund Payment
to Come Out of Allowance for Fair Return.**

OPINION.

Associated Telephone Company asks permission to sell \$300,000 of collateral trust 7 per cent. ten-year bonds due February 1, 1932, and to secure the payment of such bonds by the issue and deposit of \$400,000 of its 6 per cent. mortgage and collateral trust bonds due August 1, 1950. Applicant also asks authority to execute an agreement defining the terms and conditions under which the collateral trust bonds will be issued and to use the proceeds from the sale of the collateral trust bonds to purchase new central office apparatus, telephone equipment and appliances.

A hearing was had on this application on December 30, 1921, before Examiner Williams at Los Angeles.

The Railroad Commission by Decision No. 8685, dated March 3, 1921, authorized Associated Telephone Company to issue not exceeding \$611,326, par value, of common stock and not exceeding \$829,200, face value, of its 6 per cent. mortgage and collateral trust bonds due August 1, 1950. All of the bonds and \$511,326 of the stock were to be used for the purpose of refunding the outstanding bonds and stock, and certain outstanding coupons and claims against the Union Home Telephone and Telegraph Corporation. Stock in the amount of \$100,000, par value, applicant was authorized to sell at not less than \$80.00 per share. It appears from the record in this proceeding that all but \$59,000 of the Union Home Telephone and Telegraph Corporation bonds have been exchanged for bonds of Associated Telephone Company.

Since October 1, 1920, applicant has operated under lease the properties of the Union Home Telephone and

Telegraph Corporation, of the Long Beach Home Telephone and Telegraph Company and of the San Bernardino Home Telephone and Telegraph Company. The testimony shows that on October 1, 1920, there were in service at Long Beach 9,072 telephones and at San Bernardino 3,212 telephones, making a total of 12,284. On November 30, 1921, there were in service at Long Beach 11,352 telephones and at San Bernardino 3,583, making a total of 14,935 telephones, or a net increase of 2,651 telephones. Of the increase 2,280 were in Long Beach. George B. Ellis, applicant's president, estimates (assuming the growth of business to continue as during the past year) that by July 31, 1922, applicant will have 12,500 telephones at Long Beach and 3,800 at San Bernardino, making a total of 16,300 telephones in use. The testimony of George B. Ellis further shows that the rapid growth of business at Long Beach necessitates larger quarters at applicant's main central office, that a building is now being constructed for that purpose and that arrangements are being made for new central office equipment. The company has entered into an agreement with the Automatic Electric Company of Chicago for central office equipment, the net cost of which installed is reported at \$337,000. The new equipment is said to provide facilities in the central office for about 25 per cent. in excess of the present facilities.

It appears from applicant's Exhibit 3 that the total cost of the new equipment will be \$370,000. The Automatic Electric Company will allow \$33,000 for its present two manual switchboards now in service at Long Beach, leaving a net cost of \$337,000. Applicant agrees to pay the \$337,000 in installments as follows:

- (a) \$4,000 in cash upon the execution of the agreement;
- (b) \$6,000 in cash when substantial shipments (not less than \$2,000) of dials have been made;
- (c) \$250,000 in cash upon receipt at Long Beach of materials and equipment provided in contract specification No. 660, in the amount of not less than \$275,000 according to invoices and agreed prices;
- (d) \$27,000 in cash upon the final completion of the job and the turning over of the two automatic exchanges and acceptance;
- (e) Balance in promissory notes as follows:

Three notes of \$10,000 each due respectively on or before one, two and three years after date and one note for whatever

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balance may remain, payable on or before four years after date. The notes are to be dated as of the date of the acceptance of the exchanges and bear interest at the rate of $6\frac{1}{2}$ per cent. per annum.

It is not possible for the Commission in this proceeding to authorize the issue of the notes for the reason that applicant has not incorporated such issue in this application. If applicant finally concludes to issue the notes under the terms set forth, it should file with the Commission a new application asking permission to issue such notes.

In this proceeding, applicant asks authority to issue and sell at $93\frac{1}{4}$ and accrued interest \$300,000 of ten-year 7 per cent. collateral trust bonds and use the proceeds to pay in part for the new central office equipment and appliances to which reference has been made.

Applicant has not as yet filed a copy of the agreement under which the collateral trust bonds will be issued. The record, however, shows that the bonds are to be dated February 1, 1922, and are to mature February 1, 1932. They will be callable at 105 and accrued interest. The company covenants to pay the normal federal income tax to the extent of 2 per cent. and to establish a graduated sinking fund sufficient to retire the bonds within ten years. The holders of the collateral trust bonds are to be given the privilege of exchanging them for applicant's mortgage and collateral 6 per cent. bonds on the basis of 95. The Commission will not at this time authorize the issue of applicant's mortgage and collateral trust bonds, for the purpose of refunding the collateral trust bonds on the basis suggested.

Under the policy of the Commission, frequently announced and to which it adheres, any earnings used for sinking fund payments must come out of the allowance for a fair return.

The Commission will not make an order authorizing the execution of an agreement securing the payment of the collateral trust bonds until a complete copy of such agreement, satisfactory in form, has been filed with the Commission. The agreement should contain a condition per-

mitting the trustee to return to applicant a proper proportion of the bonds deposited as collateral if, as and when, applicant pays any of the collateral trust bonds.

ORDER.

Associated Telephone Company having applied to the Railroad Commission for permission to issue bonds and execute a collateral trust agreement, a public hearing having been held and the Railroad Commission being of the opinion that the money, property or labor to be procured or paid for by the issue of bonds referred to in this application is reasonably required by applicant and that the expenditures herein authorized are not in whole or in part reasonably chargeable to operating expenses or to income;

It is hereby ordered, That Associated Telephone Company be, and it is hereby, authorized to issue and sell, for cash, at not less than 93 $\frac{1}{4}$ per cent. of their face value and accrued interest, \$300,000 of ten-year 7 per cent. collateral trust bonds and issue and deposit as collateral to secure the payment of such collateral trust bonds not exceeding \$400,000 of its mortgage and collateral trust 6 per cent. bonds due August 1, 1950.

The authority herein granted is subject to further conditions as follows:

(1) As collateral trust bonds are being paid by applicant, a proper proportion of applicant's mortgage and collateral trust bonds deposited as collateral shall be returned to applicant's treasury and thereafter not disposed of in any manner whatsoever, except as authorized by the Railroad Commission.

(2) The proceeds realized from the sale of the bonds herein authorized shall be used by applicant for the purpose of paying for the automatic telephone equipment and appliances described in this application and more specifically in applicant's Exhibit No. 3.

(3) The authority herein granted will not become effective until applicant has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee amounts to \$300, nor until this Commission has by supplemental order authorized applicant to execute an agreement to secure the payment of the collateral trust bonds.

(4) The authority herein granted will apply only to such collateral trust bonds as may be issued, sold and delivered on or before August 1, 1922.

Dated at San Francisco, California, this twentieth day of January, 1922.

COLORADO.

The Public Utilities Commission.

In re APPLICATION OF THE PLATNER TELEPHONE COMPANY
FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECES-
SITY FOR THE CONSTRUCTION AND OPERATION OF A TELE-
PHONE SYSTEM.

Application No. 156.

Decided February 3, 1922.

Certificate of Convenience and Necessity Granted.

STATEMENT.

On December 14, 1921, there was received by this Commission an application for a certificate of public convenience and necessity for the construction and operation of a telephone line within the territory described as within the following boundaries: beginning at a point 3 miles due west from the center of the town of Platner, running thence north 18 miles, thence due east at right angles 6 miles, thence due south at right angles 33 miles, thence due west at right angles 6 miles, thence due north at right angles 15 miles to the point of beginning.

This case was set down for hearing at the hearing room of this Commission Monday, January 16, 1922, at 10:00 o'clock A. M. and was duly heard at said time.

The purpose for which the Platner Telephone Company is formed is the carrying on of a general telephone business; also the acquisition of lands, buildings, equipment and such other property as may be necessary for the carrying on of said business, and to do such other acts as are usually done in connection with the management of a telephone business. The applicant is a corporation duly organized and existing under the laws of the State of Colorado, and a copy of the articles of incorporation has been filed with this Commission. It is understood that this company is to take over a line running in a northerly direction from Platner for about 9 miles, owned by The Mountain States Telephone and Telegraph Company.

At this hearing an amended plan was filed with this Com-

mission asking for permission to extend its line within the following boundaries: beginning at the center of the town of Platner thence south a distance of 10 miles, thence east to the county line, and from said point on the county line south to the county line between Kit Carson and Washington Counties, or the southeastern corner of Washington County, thence west to the divisional line between ranges 52 and 53 west of the sixth principal meridian, thence north on said line to a point one mile north of the base line, thence due east 10 miles, thence north to the point or place of beginning.

The testimony brought out at this hearing showed that the Platner telephone people have a tentative arrangement or mutual agreement as to the territory involved with The Mountain States Telephone and Telegraph Company, and the testimony further showed that the Platner Telephone Company does not seek in any manner to invade the territory of any other existent telephone company, confining itself to a territory unoccupied by any other telephone service corporation.

ORDER.

It is, therefore, ordered, That the Platner Telephone Company of Platner, Colorado, is hereby granted a certificate of convenience and necessity to operate in the territory heretofore described.

It is further ordered, That the Platner Telephone Company use reasonable diligence in the prosecution and building of its proposed lines, and if this is not done, then and in that event, this certificate shall be null and void as to the extending or operation of any other bona fide operator of a line or lines within the limits of the territory described herein.

It is further ordered, That in the operation within the territory described, that the said Platner Telephone Company shall not in any way, invade the rights or territory of any now existing telephone company, either mutual or otherwise.

Dated at Denver, Colorado, this third day of February. 1922.

DISTRICT OF COLUMBIA.

Public Utilities Commission.

In re RATES, TOLLS AND CHARGES FOR THE TELEPHONE SERVICE OF THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY TO BE EFFECTIVE ON AND AFTER MARCH 1, 1922.

Case No. 107 — Order No. 461.

Decided February 15, 1922.

Approximate Value Determined — Payment under 4½ Per Cent. Agreement Allowed — Contract with Western Electric Company

Approved — Installation, Move and Directory Charges

Approved — Present Rates Continued in Effect.

REPORT AND ORDER.

After extended hearings in May, 1920, the Commission by its Order No. 377* fixed rates for the service of The Chesapeake and Potomac Telephone Company in the District of Columbia for a period of eight months ended January 31, 1921, and by subsequent orders continued those rates in effect until February 28, 1922, on which last-named date the rates are to be restored automatically to those in effect prior to the issuance of Order No. 377,* unless on or before February 28, 1922, the Commission shall have ordered otherwise. On January 7, 1922, the Commission announced its intention of holding a public hearing to consider the question of the rates for this company's service to be effective on and after March 1, 1922, with particular reference to the following questions:

(1) The reasonableness of the present rates, tolls and charges for telephone service.

(2) The advisability of authorizing a continuance of the charges for installing, removing and changing telephones, including so-called "directory charges."

(3) The reasonableness of the payment by The Chesapeake and Potomac Telephone Company of 4½ per cent. of its gross revenues to the American Telephone and Telegraph Company.

* See Commission Leaflet No. 103, p. 461.

(4) The advantages accruing to The Chesapeake and Potomac Telephone Company under its contract with the Western Electric Company.

(5) The progress made by The Chesapeake and Potomac Telephone Company in replacing its out-of-town operators with native operators.

(6) The number of unfilled contracts for service, due to lack of facilities and the plans for extension of facilities to furnish such service.

(7) The treatment to be given to the amount in the reserve for depreciation in determining the fair value of the property of the company as a basis for rates.

(8) The progress being made in the substitution of the automatic telephone system for the present manually operated system.

Hearings were held in this case on January 20 and 21, 1922, at which time the company presented voluminous testimony on the several matters covered by the notice of hearing. At the hearings these matters were considered in the order in which they appeared in the notice, but in a discussion of the general question of the reasonableness of the present rates it is necessary to depart from the order of their presentation.

In ascertaining the fair value of the property of the company as a basis for rates, the Commission has taken the fair value as ascertained by it as of June 30, 1914, adding thereto the net additions since that date at the amounts actually paid therefor; a method uniformly followed by the Commission in all the rate cases that have come before it. On this basis, the fair value of the property used and useful as of December 31, 1921, as shown by Gretz Exhibit No. 1, Statement 7, was \$15,217,107.73. To ascertain the rate of return which the company has earned during the calendar year 1921 it is necessary to reduce this figure to an average fair value for the year in question, and this is \$14,907,000. In one of the previous rate cases of this company, a deduction from fair value thus ascertained was made for that portion of the amount in the reserve for depreciation which had been contributed by the public through the rates, while in two other cases the amount deducted represented the additional accrued depreciation of so much of the property as was in service on December 31, 1916, (the date of the Commission's finding of fair

value), plus the depreciation which had accrued on property subsequently acquired. On this basis, the amount in the depreciation reserve at this time was shown to be \$1,421,825.49, but the company claims that it would be unjust to deduct this amount because the return it has earned through the rates during the five-year period since December 31, 1916, has been \$1,756,449 less than a 7 per cent. return. (Gretz Exhibit No. 2.)

The Commission will not determine, at this time, the policy to be followed on this question. Several months ago it held hearings in the matter of the procedure to be adopted in providing for depreciation, and submitted to the various utilities tentative rules and regulations for the purpose of discussion. Before the close of the proceedings, the jurisdiction of the Commission in the premises was questioned because of an alleged conflict between Paragraph 435 of the Transportation Act of 1920 (the so-called Esch-Cummins Bill) and the Act of 1913 creating the Public Utilities Commission. This question of jurisdiction was recently argued before the Interstate Commerce Commission and a decision will undoubtedly be rendered by that body in the near future.

The Public Utilities Commission believes it is advisable to await that decision before announcing the policy it will follow in dealing with the subject of depreciation. Accordingly, in the present case, the Commission will use the figure of \$15,217,000 as the approximate fair value of the company's used and useful property as of December 31, 1921.

In its Order No. 377,* issued May 26, 1920, the Commission deducted from the fair value of the company's property \$1,849,929.14 for property not used nor useful on December 31, 1919, representing principally special equipment installed on account of the war activities of the Federal Government which it was considered should not be included in the capital accounts in determining the basis

* See Commission Leaflet No. 103, p. 461.

for rates to subscribers in the District of Columbia. The changes that have occurred since May, 1920, in this class of property are as follows: (Gretz Exhibit No. 1, Statement No. 6):

Deduction for property not used nor useful, December 31,	
1919	\$1,849,929 14
Subsequent deductions to December 31, 1921.....	264,654 46
	<hr/>
	\$2,114,583 60

Less:

Value of property that has become useful	\$372,696 30	
Property transferred from fixed capital		
accounts to other accounts (principally		
investment accounts)	781,208 21	
Value of property removed from service.	717,629 09	
	<hr/>	1,871,533 60

Deduction for property not used nor useful, December 31,	
1921	\$243,050 00

This amount of \$243,050 has been deducted in arriving at the fair value as of December 31, 1921.

Statement No. 8, Gretz Exhibit No. 1, shows the net telephone revenue for the year 1921 to have been \$822,614.88, equivalent to a return of 5.52 per cent. on the average fair value for that year of \$14,907,000. Included in this statement is an amount of \$284,536.63 for operating taxes, of which approximately \$80,000 was for federal income tax. In its decisions in previous rate cases the Commission has stated that federal income tax should not be included as an operating expense but should be paid from the net income of the company. The Commission still adheres to this opinion.

This statement of operating revenues and expenses also includes an item of \$216,481.93, representing the amount paid during 1921 under the much-discussed 4½ per cent. licensee agreement with the American Telephone and Telegraph Company. Voluminous testimony was given by witnesses for the company in justification of this payment, the attempt being made to place a money value on the

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services rendered thereunder. Opinions regarding the proper treatment of this question differ materially among the various state regulatory commissions, some disallowing the amount in full, others allowing only a portion of the amount, while others — apparently a majority — have allowed it in full. Of the latter, several have qualified their approval with the statement that the basis of the payment is wrong and unacceptable. The item of service rendered by the American Telephone and Telegraph Company under this agreement, most susceptible of a definite money valuation, is that of the rental charge for the telephone instruments, the patent rights to which are controlled by the American Telephone and Telegraph Company. The testimony in this case shows that at the present market price of these instruments, The Chesapeake and Potomac Telephone Company is saving approximately \$1.00 per annum, per station, by renting them from the parent company instead of purchasing them outright. This rate, applied to the 94,373 subscribers' stations shown by Clarkson Exhibit No. 2 to be in service in 1921, would account for \$94,373 of the amount paid to the American Telephone and Telegraph Company during 1921. To this figure should be added the saving through the rental of instruments used by the company's operators and linemen and those carried in stock, which, it may be assumed, would bring the amount of the payment to approximately \$100,000 annually. This would leave, in round numbers, \$116,000 as the amount paid for the other services rendered by the American Telephone and Telegraph Company during the year under review. This amount undoubtedly represents payment for services or privileges of substantial value to the public though it is difficult to state positively in precise terms what the services and privileges are and equally difficult to determine what would be no more than a fair payment for them. In view, however, of the recent financial history of the local company and of its past and present earnings the extent to which this remaining amount \$116,000, is, if at

all, an over payment remains of comparatively little importance in its effect on the rate schedule.

In common with other companies throughout the country comprising the so-called Bell System, The Chesapeake and Potomac Telephone Company has a contract with the Western Electric Company for the furnishing of supplies needed in its service; not only of apparatus and equipment manufactured by the Western Electric Company, but of all classes of materials and supplies from stationery to automobiles. The contract, however, does not obligate The Chesapeake and Potomac Telephone Company to purchase any of its supplies from the Western Electric Company; it may obtain them in the open market by direct purchase from other dealers or manufacturers. Witnesses for the company testified that many purchases are made in the local market under competitive bidding, and if the prices are lower than those quoted by the Western Electric Company the order is placed with the lower bidder.

It appears from the testimony submitted by the witnesses that the prices of materials manufactured by the Western Electric Company are generally lower to the associated Bell companies than to others, and that many materials and supplies not manufactured by that company can be obtained at better prices through the Western Electric Company, due to the purchase in large quantities by the latter company of standard articles used in common by the Bell companies.

In support of the statement regarding supplies manufactured by the Western Electric Company, an analysis of the purchases by The Chesapeake and Potomac Telephone Company for the year 1920 was submitted in evidence (Cox Exhibit No. 7) showing a saving of \$82,860, or 16.59 per cent. in the amount paid for telephone apparatus and lead covered cable over the amount that would have been paid had these purchases been made from others than the Western Electric Company.

From the evidence thus presented, the Commission is of the opinion that the contractual relations between The

Chesapeake and Potomac Telephone Company and the Western Electric Company and the manner in which purchases of materials, supplies and equipment are made result in a considerable saving to the local company. As to purchases in the open market, it was shown that, during the year 1921, The Chesapeake and Potomac Telephone Company purchased apparatus and supplies from the Western Electric Company to the amount of approximately \$962,000, of which \$516,000 was for miscellaneous supplies and stationery. Purchases from other suppliers in the same year amounted to approximately \$554,000.

As a result of numerous complaints to the Commission during the past year of the failure of the company to install service for prospective subscribers, inquiry was made at the hearing in this case of the plans of the company for extensions of its facilities. It was stated by witnesses that there were approximately 391 unfilled contracts at the end of the year; 87 of these applications are in two sections of the city where present plans for extensions will give relief in May, 1922; 33 applications are included in another section where relief is planned by September, 1922; 42 other applications are included in a suburban section where the company claims the development is scattered and the growth slow and uncertain. The remaining applications, with the exception of 19 grouped in a section of the city where there is a constant changing population, were stated to be in isolated and scattered locations that could not be grouped and where the prospect for immediate relief would depend upon the discontinuance of individual lines in the neighborhood of the applicants, which could then be used for their benefit.

The Commission believes that the company is making every reasonable effort to furnish service to these applicants, and that it is inadvisable to require the company to extend its lines to those sections where, as shown by the testimony, the cost would be approximately \$700 per subscriber and the prospect of future business uncertain.

In previous rate cases, the Commission called attention

to the large amounts the company was paying for the housing and caring for out-of-town operators who were brought here during the war emergency, and whose services were retained for a considerable time thereafter. Testimony was given in the present case that all of these operators have now gone, that their places have been filled by native operators, and that the building in which they had been accommodated was closed on December 1, 1921. This action should result in a material reduction in traffic expense during the coming year, allowance being made, of course, for the increase in the number of operators occasioned by the growth of the business.

The principal complaints received by the Commission regarding the charges for installing, removing and changing telephone instruments and equipment in subscribers' premises, which were first put into effect during the period of federal control of the telephone company and subsequently continued by this Commission, relate to the so-called "directory charges," applying to service or equipment already installed which is taken over by a new subscriber without any lapse or interruption to the service. The present charge for this particular service is \$1.50 for each unit of equipment retained by the new subscriber, the maximum charge not to exceed \$3.00 for all service and facilities retained.

An analysis of the expenses involved in making changes of this character was presented by the company, showing that the charges per station that could be directly apportioned to this service amount to approximately \$1.64, representing commercial, traffic and accounting expenses. It was claimed that no amount is included in this figure for the cost of the service of the information bureau pending the issue of new directories nor of the directory costs due to such changes. It was also shown that the revenue received under this schedule during the year 1921 amounted to \$8,446, covering 6,640 station changes, an average income per station of \$1.27.

The expenses incurred in making such changes as these

are for the direct benefit of the individual subscribers involved and should, therefore, be paid by them and not placed upon all the subscribers to the system. The Commission is of the opinion that the existing rates in this schedule are fair and reasonable and should be continued in effect.

On the question of the substitution of automatic or mechanically operated switchboards for the existing manually operated system, the company stated that its policy is to use the mechanical type of switching in all new central offices to be erected in the future, but that it does not contemplate replacing the present manually operated switchboards until they have lived their useful lives. This question has been considered by the Commission in previous rate cases, but in view of the satisfactory service being given with the use of the existing type of manually operated switchboards and of the improvement in the efficiency of the switchboard operators, it does not seem advisable at this time to require the company to incur the heavy capital expense incident to the substitution of the newer type of apparatus when this expense would not be counterbalanced by any great increase in efficiency of service, while any possible reduction in operating cost would apparently be neutralized, in great part at least, by greater capital charges.

On January 21, 1922, during the progress of the hearing, a letter was received from the Secretary of the Treasury stating that after the hearing on the rates of The Chesapeake and Potomac Telephone Company before the Commission in July, 1921, conferences were held between representatives of the Federal Government and the company, with a view to adjusting certain rates for service of a kind very largely or exclusively furnished to the government, such as the so-called interdepartmental service, automatic telephone service, tie lines between the numerous government switchboards, and the extension lines from these switchboards to the widely scattered buildings in the District of Columbia occupied by government agencies. The

Secretary of the Treasury stated that these conferences are now in progress and requested the privilege, in case it should be deemed advisable, of filing a brief covering matters concerning which agreement may not have been reached, within fifteen days after the conclusion of the hearings.

On February 6, 1922, the Secretary of the Treasury submitted a statement to the Commission covering the points on which the conferees have not been able to reach an agreement, together with correspondence between the representatives of the government and the telephone company in relation thereto.

The questions in dispute relate to several important items in the contract for telephone service to the Federal Government, which are also parts of the general tariffs of the company approved by and on file with the Commission. Unfortunately, these matters were not brought before the Commission at the hearings in this case and there is therefore no testimony before the Commission on which it can act other than the correspondence above referred to. Before the Commission may act, it will be necessary to give notice of the fact that complaint has been made against the reasonableness of the rates and charges for the particular service referred to in the letter of the Secretary of the Treasury and to set a date for a public hearing of the matter, as required by the Public Utilities Act. As the present rates for telephone service expire by limitation on February 28, 1922, the Commission must issue its order in this case on or before that date; it will be impossible for the Commission to hear arguments and take testimony on the points raised by the Secretary of the Treasury in time to incorporate its findings thereon in the order in this case. The Commission will, therefore, base its findings on the testimony before it, and at an early date will consider the complaint of the federal authorities against the reasonableness of the specified tariffs and schedules as a separate and distinct issue—it has no other course of procedure under the law.

In view of the circumstances and the evidence in this case, the Commission is of the opinion that it will be fair and just alike to the public and to the company if the present rates are continued, since under these rates the company will earn only a reasonable return on the value of its property devoted to the service of the public. The company makes monthly reports to the Commission of all its operations and the Commission therefore can ascertain at any time if these rates are bringing a rate of return higher than that which it believes is fair and reasonable. After the question of its jurisdiction in the matter of the depreciation of the property of the various utilities in the District of Columbia has been determined, the Commission will consider and determine the rules and regulations for the proper accounting for depreciation, and if it then appears that a revision of the rates for service should be made, a further investigation will be held.

It is, therefore, ordered, That the rates to be charged by The Chesapeake and Potomac Telephone Company for telephone service in the District of Columbia, as fixed by Commission's Order No. 377,* issued May 26, 1920, and as modified by subsequent minor adjustments in the company's tariffs duly filed and approved, be, and the same are hereby, continued in effect on and after March 1, 1922, until otherwise ordered by the Commission.

February 15, 1922.

* See Commission Leaflet No. 103, p. 461.

HAWAII.

Public Utilities Commission.

In re APPLICATION OF THE HAWAII TELEPHONE COMPANY FOR
PERMISSION TO INCREASE ITS RATE SCHEDULE.

Decision No. 12.

Decided December 30, 1921.

**Authorized Temporary Rates Found Excessive and Reduced — Income
Tax Allowed as an Item of Expense.**

OPINION.

The Hawaii Telephone Company on July 31, 1920, filed with the Commission a request for approval of an increase in its rate schedule, the proposed change relating to rentals only, tolls to remain the same. The requested increases in rates were in Hilo from \$4.00 to \$5.50 per month for business telephones, wall type; \$4.50 to \$6.25 business, desk type; residence rates from \$3.00 to \$3.75 per month for single line, wall type telephones; \$2.50 to \$3.00 for party line, wall telephones; \$3.50 to \$4.50 for desk telephones. In the rural districts, the proposed increases were from \$4.00 to \$5.00 wall type telephones and \$4.50 to \$5.75 for desk type telephones.

The reason for the proposed increase in rates was to meet an increased wage schedule amounting to about \$19,000 per annum placed in effect by the company July 1, 1920.

The company in its petition estimated its revenue for the fiscal year 1921 based on the old rates and on total number of instruments in service May 31, 1920, as \$96,750. Under the proposed new rate schedule, the company at the time of filing its petition estimated its total receipts for the fiscal year 1921 as \$117,474, or that the new rates would bring in an increase in revenue of \$20,724 which would approximately offset the increase in wages amounting to \$19,000 per year.

The Commission by Order No. 23 on the thirty-first day of December, 1920, granted a temporary increase in rates as requested. The duration of the period of operation of

Order No. 23 was further extended by Order No. 29 issued March 21, 1921, Order No. 40 issued May 19, 1921, and Order No. 44 issued June 30, 1921, and the Commission is now in a position to see the effect of nine months' operation under the new schedule.

The revenues for nine months ending September 30, 1921, were.....	\$113,372 75	
On the same basis this will give a revenue for the twelve months of.....		\$151,163 64
The actual operating expenses for the nine months were	68,633 42	
On the same basis the operating expenses for twelve months will be.....		91,511 64
		<hr/>
Or a difference of.....		59,652 00
Deducting from this amount uncollectable revenue estimated	240 00	
Taxes, property and income.....	13,080 00	
Depreciation, 6.8 per cent. of its depreciable assets	14,556 35	27,876 35
	<hr/>	<hr/>
Leaves an operating income of.....		\$31,775 65

The property of the company devoted to public utility purposes as shown by its books as of September 30, consists of the following items:

FIXED CAPITAL, SEPTEMBER 30, 1921.

Franchises and good-will.....	\$24,982 80
Land and buildings.....	26,241 29
Switchboards and equipment.....	8,182 34
Subscribers' equipment	24,808 26
Conduit, cable, overhead.....	127,854 50
Furniture and fixtures.....	2,239 64
General garage equipment.....	1,538 67
Tools and implements.....	710 75
	<hr/>
	\$216,558 25
Deductions, account retirements.....	1,089 34
	<hr/>
Fixed capital prior to January 1, 1921.....	\$215,468 91
Fixed capital since January 1, 1921.....	31,178 10
	<hr/>
TOTAL FIXED CAPITAL INSTALLED.....	\$246,647 01

Included in this total of \$246,647.01 are franchises and good-will at \$24,982.80. As far as the Commission can ascertain this so-called franchise and good-will value arose in consolidating the three telephone companies, viz: the Kona Kau, Hamakua and South Kohala, and Hilo and Hawaii companies in 1913 by simply taking the difference between the capitalization of the new company and the book value of the assets of the three old companies. This amounted at that time to the sum of \$41,651.53 and was carried on the books as an intangible asset under the title of Good-Will and Franchise. On August 31, 1920, this account had been reduced to \$24,982.80, a total of \$16,678.73 having been written off through surplus.

In accordance with the policy pursued by this Commission in other cases, the item of franchise and good-will will be disallowed as a capital asset when it does not appear that this represents an actual expenditure. The total capital assets of the company upon which it is entitled to a fair return should therefore be reduced by this amount:

This will leave.....	\$221,664 21
Add to this material and supplies.....	3,019 36
Working capital, one-eighth of actual cash outlay.....	8,505 55
<hr/>	
We have a total of.....	\$233,189 12

as the value of the property devoted to public utility purposes upon which the telephone company is entitled to a fair return. Under the existing rates the company will have an operating income of \$31,775.65 as stated above. This is a return of 13.6 per cent. upon the amount of its capital assets. We are of the opinion that the present temporary rates are too high and should be reduced as follows:

	<i>Per Month</i>
1. Business telephones, wall type, Hilo.....	\$5 00
2. Business telephones, desk type, Hilo.....	5 75
3. Residence telephones, wall type, single line, Hilo.....	3 25
4. Residence telephones, desk type, single line, Hilo.....	4 00
5. Residence telephones, wall type, party line, Hilo.....	2 75
6. Residence telephones, desk type, party line, Hilo.....	3 50
7. Telephones, wall type, business or residence, single or party lines, outside city of Hilo.....	4 50
8. Individuals, firms or corporations paying for more than 5 telephones outside the city of Hilo, each instrument over 5	3 50
9. Desk telephones, outside city of Hilo.....	5 25

Leaving the tolls at the present rates this will reduce the amount of gross revenue by \$10,179.99 which will leave an operating income of \$21,596, which, in our opinion, is a liberal return. Order No. 23, issued on December 31, 1920, placing in effect the temporary rates is amended as to Items 1 to 9, both inclusive, and an order placing in effect the above rates as to such Items 1 to 9, both inclusive, on and after January 1, 1922, will be issued.

Done at Honolulu, Territory of Hawaii, this thirtieth day of December, 1921.

ILLINOIS.

Commerce Commission.

In re PROPOSED ADVANCE IN RATES FOR SERVICE OF THE TILDEN TELEPHONE COMPANY.

Case No. 11326.

Decided December 15, 1921.

Application for Increase in Rates Dismissed for Want of Jurisdiction.

OPINION AND ORDER.

On January 20, 1921, the Tilden Telephone Company filed with the Commission Rate Schedule I. P. U. C. 1, in which it proposed to increase the rates for telephone service in Tilden, county of Randolph, Illinois. It appeared from an examination of the proposed rates that the afore-said schedule should be suspended pending an investigation by the Commission and a hearing upon the reasonableness of the proposed advance in rates. Accordingly, the said schedule of proposed rates was suspended until June 20, 1921; subsequently the period of suspension was extended by order of the Commission to December 18, 1921.

Pursuant to notices provided by law, a hearing was held in the office of the Commission at Springfield, Illinois, on February 28, 1921, *M. S. Byrd* appearing for the petitioner. Pursuant to notices provided by law, a further hearing was held in the office of the Commission at Chicago, Illinois, on December 13, 1921. The petitioner did not appear and was not represented by counsel. On December 7, 1921, the petitioner, Tilden Telephone Company, by James E. Ross, manager, applied to the Commission by letter for a continuance of time for thirty, sixty or ninety days. In view of the fact that the time in which the Commission was to hear further evidence would have expired within the time for which application for a continuance was made, the Commission was unable to grant the request and the application for a continuance was denied. In support of the

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petition for increased rates the petitioner submitted evidence tending to show an increase in operating expenses arising out of an increase in expense for labor and an extra girl which costs \$1.00 per day in excess of the amount which had previously been paid to her.

At the conclusion of the hearing on February 28, 1921, the records seemed to be somewhat incomplete, and, therefore, pursuant to notices provided by law, the hearing was held in the office of the Commission at Chicago, Illinois, on December 13, 1921. At this hearing additional testimony was introduced by the Commission, which testimony is in the form of a report, setting forth that the rates for telephone service furnished by the Tilden Telephone Company on file with the Commission, and at present in effect, are as follows:

Residence stations, per year.....	\$10 00
Business stations, per year.....	18 00
Non-subscribers, per message.....	10
Service stations, per year.....	2 50

The proposed change in rates, as shown in Rate Schedule I. P. U. C. 1, is that the switching charge of \$2.50 per year be increased to \$4.00 per year.

The report furnished further shows that the farmers living in the vicinity of Tilden have a telephone association which owns rural telephone circuits in the vicinity of Tilden which are connected to a switchboard owned by the farmers and located in the residence of James E. Ross in the village of Tilden, and the Tilden Telephone Company which is the property of Mr. Ross, owns some of the poles located within the village limits and the Farmers' Telephone Association owns the remainder of them; that the lines of the Tilden Telephone Company are carried upon the poles of the Farmers' Telephone Association, and that the Tilden Telephone Company owns the telephone instruments within the village limits; that the lines of the Tilden Telephone Company are attached to the switchboard of the Farmers' Telephone Association and the Tilden Telephone

Company pays rental to the Farmers' Telephone Association of \$1.00 per line, per annum; that the Farmers' Telephone Association pays to James E. Ross the sum of \$2.50 per station for handling the switching service. Therefore, the switching service rate is not a rate for public service, but is a basis on which James E. Ross is paid for certain services rendered to the Farmers' Telephone Association. The question of rates charged for service furnished by the Tilden Telephone Company to its subscribers living within the village of Tilden is not involved in or affected by this hearing.

The Commission therefore finds that the rate of \$2.50 per year for switching service which the petitioner desires to increase to \$4.00 per year is not a public service charge and does not come within the jurisdiction of the Commission, but that the same is the result of a contractual relation existing between the users of telephones in the Farmers' Telephone Association and Mr. James E. Ross, owner of the Tilden Telephone Company, and that the same should be dismissed without prejudice.

It is, therefore, ordered, That Rate Schedule I. P. U. C. 1 of the Tilden Telephone Company, filed January 20, 1921, covering rates for switching service furnished to the Farmers' Telephone Association, is not such a matter as comes within the jurisdiction of the Illinois Commerce Commission, as herein presented, and the same is hereby dismissed without prejudice.

By order of the Commission, at Springfield, Illinois, this fifteenth day of December, 1921.*

* On December 21, 1921, a similar order was issued *In re Edgington Central Telephone Company* (No. 11489).

In re APPLICATION OF THE DEKALB COUNTY TEL. CO. 899
C. L. 124]

In re APPLICATION OF THE DEKALB COUNTY TELEPHONE
COMPANY FOR CERTIFICATE OF CONVENIENCE AND NECES-
SITY TO EXTEND ITS RURAL TELEPHONE CIRCUITS IN
ORDER TO FURNISH SERVICE TO APPLICANTS LIVING NEAR
COLVIN PARK.

Case No. 11593.

Decided December 21, 1921.

Certificate of Convenience and Necessity Granted.

OPINION AND ORDER.

On April 11, 1921, an application was filed herein by the DeKalb County Telephone Company asking that a certificate of convenience and necessity be issued by the Commission to the DeKalb County Telephone Company, a corporation, covering the extension of a rural telephone circuit of the DeKalb County Telephone Company, into the territory north of Colvin Park, county of DeKalb, in order to furnish telephone service to Messrs. W. D. Rankin, John H. Meckler, Marion Arbuckle, A. B. Stray and G. D. Hueber.

The matter came on for hearing before the Commission on June 29, 1921, at which time the petitioner was represented by *John Faissler*, attorney, and no one appeared objecting.

It appears from the record that W. D. Rankin, John H. Meckler, Marion Arbuckle, A. B. Stray, and G. D. Hueber, live a short distance north of Colvin Park, county of DeKalb, in a territory where telephone service is furnished by the Boone County Rural Telephone Company. However, only one party is now securing service of the Boone County Rural Telephone Company, and all have petitioned the DeKalb County Telephone Company for service because their interests are centered in Genoa and Sycamore, where service is furnished by the DeKalb County Telephone Company. The record shows that the Boone County Rural Telephone Company is aware of the proposed extension of the rural line of the DeKalb County

Telephone Company, but has not entered an objection to the invasion of its territory.

After careful consideration of the record, the Commission is of the opinion, and finds:

1. That the DeKalb County Telephone Company, a corporation, is a public utility within the meaning of Section 10, Article 1, of an Act Concerning Public Utilities, now in effect in Illinois.

2. That the application of the DeKalb County Telephone Company for the issuance of a certificate of convenience and necessity authorizing it to extend a rural telephone line north of Colvin Park, county of DeKalb, and to furnish telephone service to W. D. Rankin, John H. Meckler, Marion Arbuckle, A. B. Stray, and G. D. Hueber, will, if granted, promote the public convenience and is necessary thereto, and should be granted.

It is, therefore, ordered by the Illinois Commerce Commission, That a certificate of convenience and necessity covering the extension by the DeKalb County Telephone Company of a rural telephone line north of Colvin Park, county of DeKalb, and the furnishing of telephone service to W. D. Rankin, John H. Meckler, Marion Arbuckle, A. B. Stray, and G. D. Hueber, be, and the same is hereby granted to the DeKalb County Telephone Company in accordance with Section 55 of an Act Concerning Public Utilities, now in effect in Illinois, and that the said certificate of convenience and necessity be issued under seal of this Commission and authenticated by its secretary.

This certificate is granted upon the express condition that the necessary permission be secured from the local authorities for the construction of the proposed telephone line, subject to the rights, if any, of abutting property owners, in the event such telephone line is constructed in a public highway.

By order of the Commission at Springfield, Illinois, this twenty-first day of December, 1921.

CERTIFICATE.

Whereas, the DeKalb County Telephone Company, a corporation, organized under the laws of the State of Illinois for the purpose of operating a telephone system and furnishing telephone service in Illinois has applied to this Commission for a certificate of convenience and necessity;

(1) For the extension of a rural telephone line north of Colvin Park, county of DeKalb,

(2) For the furnishing of telephone service to W. D. Rankin, John H. Meckler, Marion Arbuckle, A. B. Stray and G. D. Hueber,

The Illinois Commerce Commission hereby certifies,
That the public convenience and necessity requires;

(1) The extension by the DeKalb County Telephone Company of a rural telephone line north of Colvin Park, county of DeKalb,

(2) The furnishing of telephone service to W. D. Rankin, John H. Meckler, Marion Arbuckle, A. B. Stray and G. D. Hueber.

This certificate is granted by the Illinois Commerce Commission to the DeKalb County Telephone Company, a corporation, in accordance with Section 55, of an Act Concerning Public Utilities approved June 29, 1921, and in effect July 1, 1921, and under and by virtue of an order entered by this Commission this twenty-first day of December, 1921.

By order of the Commission, at Springfield, Illinois, this twenty-first day of December, 1921.

In re APPLICATION OF THE GARRISON MUTUAL TELEPHONE COMPANY FOR CONSENT TO AND APPROVAL OF THE PURCHASE OF THE PROPERTY OF THE GARRISON MUTUAL TELEPHONE COMPANY, a CO-PARTNERSHIP, FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY, AND FOR AUTHORITY TO ISSUE CAPITAL STOCK.

Case No. 11490.

Decided December 22, 1921.

Application for Certificate of Convenience and Necessity and for Permission to Issue Capital Stock Denied for Want of Jurisdiction.

DISMISSAL ORDER.

On February 24, 1921, an application was filed herein by the Garrison Mutual Telephone Company, a corporation, asking; (1) for consent to and approval of the purchase by the Garrison Mutual Telephone Company, a corporation, and sale by the Garrison Mutual Telephone Company, a co-partnership, of the telephone property of the Garrison Mutual Telephone Company, a co-partnership, located near Rushville, county of Schuyler; (2) that a certificate of convenience and necessity be issued by the Commission to the Garrison Mutual Telephone Company, a corporation, covering the operation of the telephone property proposed to be transferred; and (3) that the Garrison Mutual Telephone Company, a corporation, be authorized by the Commission to issue its common capital stock in the aggregate amount of \$1,000.

The matter came on for hearing before the Commission on March 30, 1921, whereat the petitioner was represented by *George B. Steele*, attorney, and no one appeared objecting. The petitioner submitted copy of certificate of incorporation, a sketch showing the location of the telephone line which it is proposed to transfer, and a copy of minutes of meeting of February 15, 1921, held by the stockholders of the Garrison Mutual Telephone Company, a corporation, at which time the officers of the corporation were directed to petition the Commission for authority to issue stock.

From the record it appears that the Garrison Mutual

Telephone Company, a corporation, proposes to purchase a rural party telephone line extending in a northerly direction from the city limits of Rushville, county of Schuyler. The present owners of the line are all to become stockholders in the Garrison Mutual Telephone Company, a corporation, and service is to be furnished only to stockholders. Switching service is secured at the Rushville exchange of the Schuyler Telephone Company. It appears therefore that according to Section 10, Article 1, of an Act Concerning Public Utilities, now in effect in Illinois, the Garrison Mutual Telephone Company, a corporation, is not under the jurisdiction of the Illinois Commerce Commission. Section 10, Article 1, of an Act Concerning Public Utilities reads as follows:

" * * * and except such telephone company or companies which are or may hereafter be purely mutual concerns, having no rates or charges for services, but paying the operating expenses by assessment upon the members of such company or companies and no other person or persons."

The Commission having considered the record herein finds (1) that the Garrison Mutual Telephone Company is not a public utility within the meaning of the Act and is therefore not subject to the jurisdiction of the Illinois Commerce Commission; and (2) that no decision on the application herein is necessary, and that same should be dismissed.

It is, therefore, ordered, That the application of the Garrison Mutual Telephone Company, a corporation, for authority to purchase the telephone property of the Garrison Mutual Telephone Company, a co-partnership; for the issuance of a certificate of convenience and necessity to the Garrison Mutual Telephone Company, a corporation, to conduct its business of furnishing telephone service; and approval by the Commission for the issuance by the Garrison Mutual Telephone Company, a corporation, of its capital stock in the aggregate amount of \$1,000, be, and the same is hereby, dismissed.

By order of the Commission, at Springfield, Illinois, this twenty-second day of December, 1921.

In re APPLICATION OF THE SCOTT COUNTY TELEPHONE COMPANY FOR AN ADVANCE IN RATES IN WINCHESTER.

Case No. 11268.

Decided January 12, 1922.

Value Determined — Rates as Requested Refused — Increase in Rates Authorized.

OPINION AND ORDER.

On January 6, 1921, a revised schedule of rates for telephone service furnished in Winchester, county of Scott, and vicinity, was filed by the Scott County Telephone Company. A hearing in the matter being deemed necessary the Commission entered an order on January 17, 1921, suspending the proposed increased rates until June 6, 1921, and subsequently resuspended the proposed rates pending field investigation. On December 2, 1921, the Commission issued an order permanently suspending Rate Schedule I. P. U. C. 1. On December 5, 1921, the Scott County Telephone Company petitioned the Commission to reopen the cause and on December 8, 1921, the Commission granted the petition and set the case for further hearing on December 21, 1921. The present and proposed rates for the principal classes of service are as follows:

	<i>Annual Rates</i>	
	<i>Present</i>	<i>Proposed</i>
Individual line, business stations.....	\$18 00	\$36 00
Two-party line, business stations.....		24 00
Individual line, residence stations.....	12 00	24 00
Two-party line, residence stations.....	12 00	18 00
Two-party line, residence stations, outside city limits	15 00	21 00
Extension stations	6 00	6 00
Rural party line, business stations, metallic circuit	18 00	30 00
Rural party line, residence stations, metallic circuit	18 00	24 00
Rural party line, residence stations, grounded circuit	12 00	18 00

All interested parties having been notified the matter came on for hearing before the Commission on March 17, 1921, at which time the Scott County Telephone Company was represented by *Ben B. Boynton*, and no one appeared objecting. The telephone company submitted an inventory and appraisal of the physical property as of February 1, 1921; income and expense statement for the year ending December 31, 1920; statement showing classification and distribution of subscribers' stations as of February 1, 1921; statement showing annual increases in wages not reflected in the 1920 operating expenses; and proof of publication of notice of intention to apply for authority to increase rates. At the hearing on December 21, 1921, the Scott County Telephone Company submitted an income and expense statement for the year 1920 and an estimate of income and expenses for the year 1921 based upon eleven months' operations. The company also submitted a statement showing a comparison of costs of labor and telephone material during the year 1905 and the present time.

The record shows that on February 1, 1921, service was being furnished to 792 subscribers' stations, distributed and classified as follows:

	<i>Number of Stations</i>	<i>Annual Rates</i>	<i>Annual Income</i>
Individual line, business stations.....	74	\$18 00	\$1,332 00
Individual line, residence stations.....	71	12 00	852 00
Two-party line, residence stations.....	221	12 00	2,652 00
Two-party line, residence stations, out- side city limits.....	15	15 00	225 00
Extension stations	33	6 00	198 00
Rural, business stations, metallic cir- cuit	10	18 00	180 00
Rural, residence stations, metallic cir- cuit	274	18 00	4,932 00
Rural, residence stations, grounded line	94	12 00	1,128 00
TOTAL	792		\$11,499 00

The plant is of the combination common battery and magneto type with metallic circuits within the city limits

and both metallic and grounded circuits in the rural communities. The appraisal submitted by the Scott County Telephone Company was compiled as of February 1, 1921, and shows a reproduction cost new of the physical property, using average normal prices for the years 1914 to 1918, inclusive, of \$60,295 and a reproduction cost new, less depreciation, of \$44,216. The company estimates that a working capital of \$1,199 is required and has submitted an estimate for going value of \$8,915. The fair value for rate-making purposes as estimated by the Scott County Telephone Company is \$54,320.

The Commission's engineering staff made a field check of the inventory of the physical property of the Scott County Telephone Company and prepared an appraisal as of February 1, 1921, which is of record in this cause. The reproduction cost new of the property as estimated by the Commission's engineering staff as of that date, using average unit prices for the years 1912 to 1916, inclusive, is \$53,511 and the reproduction cost new, less depreciation, is \$38,963. Working capital is estimated by the engineering staff to be \$1,551.

The record shows little with respect to the history of this plant, but it appears that the Scott County Telephone Company purchased certain telephone property in Winchester, and vicinity, in 1905 and that the property has been reconstructed since that time. Records have not been properly kept so that a reasonable determination of original cost of the property cannot be made and therefore no exhibits were submitted bearing on this point.

The reproduction cost new appraisal submitted by the Scott County Telephone Company is based upon average unit costs for labor and material for the five years 1914 to 1918, inclusive, and therefore reflects to a greater extent the increased cost of labor and materials brought about by the World War than if it had been compiled using average prices of labor and material for the five-year period, 1912 to 1916, as used by the engineering staff of the Commission. To the difference in unit costs used is due the dif-

ference in the appraisal amounts as submitted by the company and by the Commission's engineers.

From the evidence of record relative to the cost of the property it appears that a fair value of the property of the Scott County Telephone Company for rate-making purposes is \$46,000.

The annual operating expense of the Scott County Telephone Company for the year 1920, excluding depreciation, was \$10,199. Taxes and other incidental expenses were \$606. The record shows that annual increases in wages paid by the Scott County Telephone Company, but not reflected in the 1920 operating expenses, are \$551. Furthermore, the record shows that the manager of the company who also assists in the work connected with repairing and maintaining the lines and equipment, and acts as relief operator, was given an increase in salary from \$1,200 to \$1,800 per year. This increase appears reasonable in view of the long hours required of this employee. The operating expense for the year 1921, based on eleven months' operating experience, was \$13,207.

The present schedule of rates provided a gross revenue of \$11,913 in 1920 and about \$13,076 for 1921, including toll and miscellaneous revenue in both instances. From this it appears that some increase in rates is justified, as the present rates provide nothing for depreciation and interest. The proposed rates are shown to be 100 per cent. in advance of the present rates for some classes of service and, in view of the fact that a period of declining prices has been entered upon, it is the opinion of the Commission that so marked an increase in rates should not be permitted. A modified schedule of temporary rates will therefore be authorized which will produce sufficient revenue to pay operating expenses and leave about \$4,000 for interest and depreciation.

In view of the declining costs of labor and material and such economies as this company may be able to bring about, the Commission believes that the company can increase the net revenues above that here contemplated. For the pur-

pose of determining the effect of the temporary rates under present and future operating conditions, the Commission will require this company to file quarterly accounting reports. From this information thus supplied the Commission can take such action as the facts may warrant.

The Commission, having considered the record herein, all evidence adduced, the representations and arguments made and being fully advised in the premises, finds as follows:

1. That the fair value of the property of the Scott County Telephone Company, including working capital, materials and supplies, and all elements of value, both tangible and intangible, is \$46,000 as of February 1, 1921.

2. That Rate Schedule I. P. U. C. 1 filed by the Scott County Telephone Company on January 6, 1921, contains rates which are unjust and unreasonable insofar as they differ from rates hereinafter authorized; that, therefore, the said rate schedule should be permanently suspended, annulled and cancelled.

3. That the present rates are insufficient and that increased rates should be authorized.

4. That the temporary rates hereinafter authorized will permit the company to pay operating expenses and provide about \$4,000 per annum for interest and depreciation.

5. That the Scott County Telephone Company should be required to file quarterly accounting reports on Form E-601, which form can be obtained from the secretary of this Commission.

It is, therefore, ordered by the Illinois Commerce Commission:

Section 1. That Rate Schedule I. P. U. C. 1, filed by the Scott County Telephone Company under date of January 6, 1921, be, and the same is hereby, permanently suspended, annulled and cancelled.

Section 2. That the Scott County Telephone Company be permitted and authorized to place the following schedule of rates in effect as of February 1, 1922, to be designated

as I. P. U. C. 2 covering telephone service in the village of Winchester, county of Scott, and vicinity, *provided* said schedule of rates is filed with the Commission not less than five days prior to the effective date of the schedule; and the said schedule of rates when filed in the office of the public utility, all as required by the Illinois Commerce Commission Law and General Order No. 28,* as amended, adopted by the Commission, shall be the legal rates covering telephone service in the village of Winchester, county of Scott, and vicinity. The rates for the following classes of service shall be modified in the revised schedule designated as I. P. U. C. 2 so as to read in words and figures as follows:

Annual Rates

Individual line, business stations.....	\$30 00
Two-party line, business stations.....	24 00
Individual line, residence stations.....	21 00
Two-party line, residence stations.....	18 00
Two-party line, residence stations, outside city limits.....	18 00
Extension stations (city and rural).....	6 00
Rural, business stations, metallic circuit.....	24 00
Rural, eight- and ten-party line, residence stations, metallic circuit	21 00
Rural, eight- and ten-party line, residence stations, grounded circuit	15 00

It is the intent of this order that all rules and regulations to be specified in the modified schedule to be designated as I. P. U. C. 2 shall be the same as set forth in Rate Schedule I. P. U. C. 1.

Section 3. That the Scott County Telephone Company shall file quarterly accounting statements at the end of every quarter of the fiscal year on Form E-601.

Section 4. That all items of expense having to do with the upkeep of the plant shall be treated strictly in accordance with the Uniform System of Accounts for Telephone Companies, now in effect by this Commission, particular attention being given to the proper proportionment

* See Commission Leaflet No. 54, p. 21.

between maintenance expense and expense due to depreciation of plant and equipment.

The Commission, having in mind that the rates hereinabove authorized are temporary, jurisdiction of this cause is hereby retained for the purpose of holding hearings and issuing such further orders as the evidence thereby adduced may require.

By order of the Commission at Springfield, Illinois, this twelfth day of January, 1922.

In re APPLICATION OF THE INTER-CITY TELEPHONE COMPANY
FOR AN ORDER AUTHORIZING THE ISSUANCE OF CAPITAL
STOCK.

Case No. 11328.

Decided January 12, 1922.

Issue of Stock Authorized.

FIRST SUPPLEMENTAL ORDER.

On April 21, 1921,* the Commission approved the sale of the telephone property located in Biggsville and Kirkwood, and known as the Farmers' Telephone Exchanges, owned by H. W. Stewart, and the purchase of this property by the Inter-City Telephone Company. The Commission also approved the application of the Inter-City Telephone Company for an order authorizing the issuance by the Inter-City Telephone Company of its notes in the aggregate amount of \$30,000.

On April 27, 1921, the Inter-City Telephone Company filed an application asking that a supplemental order be issued approving the issuance by the Inter-City Telephone Company of its common capital stock in the aggregate amount of \$45,000 to be issued to F. A. Bowdle, Grover C. Rehling and Thomas Dixon, guarantors of notes issued

* See Commission Leaflet No. 115, p. 1723.

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by the company to the amount of \$30,000, authorized by order* of the Commission in connection with the purchase and sale of this property under docket number in the instant proceeding.

The matter under immediate consideration came on for hearing before the Commission on June 2, 1921, at which time the Inter-City Telephone Company was represented by counsel. No one appeared objecting. The record adduced at the hearing pertaining to the purchase and sale of this property was made a part of the record in the instant proceeding. Likewise, there was submitted in evidence a statement of the cost of additions and betterments made since the date of the purchase of the property by the Inter-City Telephone Company.

Subsequent to the hearing on June 2, 1921, the Commission was advised by counsel representing the Inter-City Telephone Company that the company's purposes would be served, at the present time, by issuing \$35,000 worth of stock in lieu of \$45,000 originally prayed for. When the matter of rates for telephone service furnished by the then owner of this property was under consideration by the Public Utilities Commission, Docket Case No. 8914, an order† was entered under date of February 10, 1920, establishing a reasonable value of the property at \$41,000 as of January 1, 1920. The record shows that the property was purchased by the Inter-City Telephone Company for a consideration of \$30,000. The additions to plant made by the present owner cost \$5,000, making a total cash outlay by the Inter-City Telephone Company of \$35,000.

Without prejudice to the petitioner it would appear, therefore, that the property for capitalization purposes is worth at least \$35,000. If, however, the stock is issued to the guarantors of the notes as prayed for, without a provision for taking up the \$30,000 in notes, there would be a total capitalization of \$65,000 against the property which, of course, is excessive. It would appear, therefore, that

* See Commission Leaflet No. 101, p. 1721.

† See Commission Leaflet No. 115, p. 1723.

the capitalization should be limited to a total of \$35,000 for specific purposes as hereinafter stated.

The Commission having given due consideration to the evidence of the record and being fully advised in the premises finds as follows:

1. That the application of the Inter-City Telephone Company for the issuance of its common capital stock to be held by F. A. Bowdle, Grover C. Rehling and Thomas Dixon, should be denied.

2. That the Inter-City Telephone Company should be authorized to issue its common capital stock in an amount not to exceed \$35,000, the proceeds of the sale of which are to be used for the purpose of refunding to the stockholders of the company money advanced for extensions to plant in the amount of \$5,000, and for the purpose of retiring the notes of the Inter-City Telephone Company as the same comes due, and for no other purpose.

It is, therefore, ordered by the Illinois Commerce Commission as follows:

Section 1. That the application of the Inter-City Telephone Company, a corporation, for the issuance of its common capital stock in the aggregate amount of \$45,000, to be issued to and held by F. A. Bowdle, Grover C. Rehling, and Thomas Dixon, be, and the same is hereby, denied.

Section 2. That the Inter-City Telephone Company, a corporation, be, and the same is hereby, authorized to issue its common capital stock in the aggregate amount of \$35,000 to be sold at par, the proceeds of the sale of which are to be used for the following purposes, and for no others:

(a) For the reimbursement of money advanced by the stockholders of the said Inter-City Telephone Company for additions and betterments to plant as shown by the record herein in the amount of \$5,000;

(b) For the retirement of the notes issued by the Inter-City Telephone Company to H. W. Stewart, former owner of the property, as such notes become due or are retired by the Inter-City Telephone Company. The aggregate amount of stock to be issued for this purpose is \$30,000.

Section 3. That the Inter-City Telephone Company shall keep separate, true and accurate accounts covering the

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sale or sales of said stock as herein authorized to be issued, and every sixty days from the date of this order, or so long as may be necessary, the company shall file with this Commission a verified report signed by the president or vice-president, and the secretary of said company, showing the sale or sales of said stock as herein authorized, the moneys derived therefrom and the use and application in detail of said money. All said accounts, vouchers and records in connection with the issuance and sale of said securities as herein authorized to be issued shall be open to audit and may be audited from time to time by whatever accountants and examiners this Commission may designate or appoint for that purpose.

Section 4. That the Inter-City Telephone Company, a corporation, before the delivery of any certificate of stock herein authorized to be issued, shall cause to be printed, stamped or engraved on the face of the said certificates for the purpose of proper and easy identification of same, the following:

"ILLINOIS COMMERCE COMMISSION,
Authorization No. 1272,
January, 1922."

By order of the Commission at Springfield, Illinois, this twelfth day of January, 1922.

In re PROPOSED REVISION IN RATES FOR SERVICE OF THE
PATOKA TELEPHONE COMPANY.

Case No. 9936.

Decided January 18, 1922.

**Request to Increase Rates in Order to Provide Discount for Prompt
Payment Denied — Penalty for Failure to Make Prompt
Payment Established.**

ACCEPTANCE ORDER.

On April 11, 1921. the Patoka Telephone Company filed a revised schedule of rates for telephone service furnished

in Patoka, county of Marion, and vicinity. A hearing in the matter being deemed necessary, the Commission entered an order on April 21, 1921, suspending the proposed revised rates until September 9, 1921, and subsequently further suspended the said proposed rates pending investigation.

All interested parties having been notified the matter came on for hearing before the Commission on May 18, 1921. The Patoka Telephone Company was represented by *Ben B. Boynton*, and no one appeared objecting. The Patoka Telephone Company submitted a statement showing operating revenues and expenses for the year 1920, and for the first three months of the year 1921; and proof of publication of notice of intention to apply for authority to revise rates.

The only change in the rates shown in Rate Schedule I. P. U. C. 4, affecting the city subscribers of the Patoka Telephone Company is the addition of 25 cents per month to the present rates with the provision for discount of 25 cents per month for prompt payment of bills. The record shows that the expense connected with making collections under present conditions is a substantial item in the operation of the plant of the Patoka Telephone Company, and that the effect of a discount such as the one proposed, if placed in effect by the telephone company, will expedite collections greatly and that the telephone company's subscribers will almost without exception take advantage of the discount terms and make prompt payment.

This Commission does not approve of the practice of increasing rates for the purpose of facilitating collections by allowing the increase to be a discount for prompt payment. An increase in rates should be allowed only upon direct showing that the rates in effect are inadequate to produce a reasonable return upon a fair value of the property used and useful in furnishing service.

The Commission is of the opinion, however, that a rule which provides for the collection of an additional charge when bills are not paid when due is a reasonable rule; and

the Commission approves of a rule which provides for the collection of a charge of 25 cents in addition to the monthly rate where bills are not paid when due.

It is, therefore, ordered by the Illinois Commerce Commission as follows:

Section 1. That Rate Schedule I, P. U. C. 4, of the Patoka Telephone Company, be, and the same is hereby, permanently cancelled and annulled.

Section 2. That the Patoka Telephone Company be, and the same is hereby, permitted and authorized to file with the Commission its rate schedule covering telephone service in the village of Patoka, county of Marion, and vicinity, effective January 1, 1922, which said schedule shall include a rule providing for an additional charge of 25 cents per month when bills are not paid on or before the last day of the month in which service is rendered. Such schedule of rates shall be the legal rates covering telephone service in the village of Patoka, county of Marion, and vicinity.

By order of the Commission, at Springfield, Illinois, this eighteenth day of January, 1922.

PUBLIC UTILITIES COMMISSION ON ITS OWN MOTION *v.*
HENDERSON COUNTY PUBLIC SERVICE COMPANY, MON-
MOUTH PUBLIC SERVICE COMPANY AND STRONGHURST
TELEPHONE COMPANY.

Case No. 11710.

Decided January 25, 1922.

Inductive Interference Ordered Eliminated.

OPINION AND ORDER.

In March, 1921, complaint was made by the Stronghurst Telephone Company of inductive interference on its lines caused by electric circuits of the Henderson County Public Service Company. Complaint was also received alleging

unsatisfactory electric service in Raritan, one of the communities served by the Henderson County Public Service Company. An investigation was made by the Commission's engineering staff and its report showed that inductive interference was found to exist on the lines of the telephone companies, and that the electric service in Raritan as well as in other communities was unsatisfactory. The electric service rendered the Henderson County Public Service Company by the Monmouth Public Service Company was also found to be unsatisfactory. On June 9, 1921, the Commission entered a citation order, requiring the Henderson County Public Service Company, the Monmouth Public Service Company and the Stronghurst Telephone Company to appear before the Commission on June 23, 1921, to show cause why changes in construction and operation of the equipment or facilities of the respective companies should not be made to mitigate inductive interference on telephone circuits of the Stronghurst Telephone Company. The Henderson County Public Service Company was cited also to show why the electric service to its consumers should not be improved and the Monmouth Public Service Company was required to show cause why electric service furnished to the Henderson County Public Service Company should not be improved. Requests for continuance were made by the telephone companies and the first hearing held on October 19, 1921, whereat *D. W. Lee* appeared for the Henderson County Public Service Company, *F. A. Norris* for the Monmouth Public Service Company, and *O. F. Berry* for the Stronghurst Telephone Company.

It developed at this hearing that the Inter-City Telephone Company, under the same management as the Stronghurst Telephone Company, had succeeded the Farmers' Telephone Exchanges of Biggsville and Kirkwood and is now serving the territory formerly served by the latter company. The Inter-City Telephone Company serves the villages of Kirkwood, Biggsville and Gladstone and the surrounding communities and evidence was taken relative to interference on its circuits. The case was con-

tinued until December 21, 1921. in order that the Henderson County Public Service Company might have an opportunity to present its evidence.

The record in the case shows that some inductive interference exists on the circuits of the Stronghurst Telephone Company and that a still greater amount exists on those of the Inter-City Telephone Company. Failure of the Henderson County Public Service Company to properly observe the requirements of General Order No. 30* appears to be responsible in part for the interference. Insufficient clearance between the signal and supply circuits was found to exist at certain points, and in other places the telephone circuits had been overbuilt where an avoidance of conflict was possible. In many places the electric circuits were found to be in contact, or possible contact, with limbs of trees. One of the exhibits of the Stronghurst Telephone Company sets forth the conditions of conflict at points along the pole routes of the electric line, and describes in detail the violations of the Commission's General Order No. 30.* Previous to the hearing of December 21, 1921, representatives of the Henderson County Public Service Company and the telephone companies made a detailed inspection of the points of conflict and arrived at an agreement for a satisfactory adjustment of each point of difference. In this agreement the changes to be made by either company or by both companies were stipulated. The execution in full of this agreement would appear to eliminate all interference due to non-compliance with the Commission's General Order No. 30,* and should remove other matters of difference.

The most serious inductive disturbances, however, were found to exist on the telephone lines between Biggsville and Gladstone where the electric and telephone circuits are supported jointly on the same pole line. The joint construction on this circuit was completed in execution of an agreement between the Henderson County Public Service

* See Commission Leaflet No. 61, p. 177.

Company and the Farmers' Telephone Exchanges of Biggsville and Kirkwood, which company has been succeeded by the Inter-City Telephone Company. Tests made by the interested parties appeared to indicate that interference on the telephone lines would be sufficiently mitigated to satisfactorily restore the telephone service if the voltage on the electric lines involved in the joint construction were reduced from 4,400 to 2,200 volts through an isolating transformer at Biggsville. At the hearing on December 21, 1921, the parties to the cause stipulated an agreement covering the operation of this line at reduced voltage, the execution of which agreement would appear to satisfactorily eliminate the inductive interference now on this particular line. However, it should be understood that such reduction in voltage as may be made to remove telephone interference will have the approval of the Commission only as long as it will permit the rendering of reasonably adequate service to electric consumers.

The record shows that the electric service rendered by the Henderson County Public Service Company has been very unsatisfactory throughout part of the territory served, principally on account of extreme voltage variation. This was found particularly true in the villages of Media and Raritan which receive service from a single phase transmission line south from Biggsville. When the complaint relative to electric service was received, electric energy was being transmitted from Monmouth to Kirkwood over a 2,300 volt, three-phase line, the voltage being increased to 4,400 at Kirkwood by means of an auto transformer arrangement. Since then a change has been made and the energy is now transmitted at 13,200 volts to a point a few miles east of Kirkwood, and there reduced to 4,400 volts for transmission to Kirkwood and to the system of the Henderson County Public Service Company. At the present time the voltage is reduced from 13,200 to 4,400 through four transformers so connected as to operate in what is technically known as "open delta." The capacity of these four transformers is insufficient to carry satisfac-

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torily the entire load for Kirkwood and for the system of the Henderson County Public Service Company, and should be increased. It is contended that part of the inductive interference on the telephone circuits is caused by the "open-delta" transformer connection at the electric substation and the electric company has indicated its intention to install another transformer for the purpose of increasing the capacity and closing the delta. Such a change should improve the electric service rendered the Henderson County Public Service Company and some of the electric disturbances causing interference with the telephone circuits would possibly be removed.

The record appears to indicate that a further improvement in electric service and possibly some reduction in inductive interference might be effected by better balance of the electrical load throughout the system of the Henderson County Public Service Company and by a rearrangement of the transmission system, whereby some of the communities could be served from other phases.

Having taken into consideration all the evidence in the case, and being fully advised in the premises, the Commission finds as follows:

1. That inductive interference exists on the circuits of the Stronghurst Telephone Company and Inter-City Telephone Company as a result of the operation of electric circuits of the Henderson County Public Service Company.

2. That the Henderson County Public Service Company, the Inter-City Telephone Company and the Stronghurst Telephone Company should promptly complete all changes necessary for a complete compliance with the Commission's General Order No. 30,* should do such tree trimming as appears necessary and remove all objectionable conditions set forth in the record and as more particularly covered by an agreement between the parties.

3. That the Henderson County Public Service Company, the Stronghurst Telephone Company and the Inter-

* See Commission Leaflet No. 61, p. 177.

City Telephone Company should promptly complete such changes as may be found necessary to eliminate inductive interference on the telephone circuits.

4. That the Henderson County Public Service Company should improve the electric service on its system so as to render a grade of electric service which meets in full the requirements of the Commission's General Order No. 65 and should make such voltage surveys as are necessary to determine the character of the voltage regulation.

5. That the Monmouth Public Service Company should increase the capacity of the transformer at the 13,200-4,400 volt substation east of Kirkwood by the installation of another transformer so connected at its primary and secondary terminals as to effect what is technically known as a "closed delta" arrangement.

It is, therefore, ordered, That the Henderson County Public Service Company, the Stronghurst Telephone Company and the Inter-City Telephone Company, be, and each of them is hereby, required to complete all changes in its respective system as may be necessary for a complete compliance with the Commission's General Order No. 30,* do all necessary tree trimming and remove all objectionable conditions set forth in the record, and as more particularly covered by an agreement between the parties, all of which work shall be completed within thirty days from the date of service of this order.

It is further ordered, That the Henderson County Public Service Company, the Stronghurst Telephone Company, and the Inter-City Telephone Company be, and the same are hereby, required to collaborate and take such independent action as may be necessary to eliminate all objectionable inductive interference on the telephone lines and to complete the necessary changes within thirty days from the date of service of this order.

It is further ordered, That the Henderson County Public Service Company be, and the same is hereby, required

* See Commission Leaflet No. 61, p. 177.

to improve electric service on its system to the end that the electric service rendered shall meet in full the requirements of the Commission's General Order No. 65 within ninety days from the date hereof. Within sixty days from the date hereof the company shall complete a voltage survey of such comprehensiveness as may be necessary to fully determine the character of voltage regulation throughout the system, and shall send to the Commission all data taken in connection with such survey.

It is further ordered, That the Monmouth Public Service Company be, and the same is hereby, required to increase the capacity of the transformer installation at the 13,200-4,400 volt substation east of Kirkwood by the installation of another transformer so connected at the primary and secondary terminals as to effect what is technically known as a "closed delta" arrangement, such work to be completed within thirty days from the date of service of this order.

It is further ordered, That all the parties to this cause, be, and each of them is hereby, required to notify the secretary of this Commission, in writing, within five days following the date of compliance with each provision of the order applicable to it.

By order of the Commission at Springfield, Illinois, this twenty-fifth day of January, 1922.

In re APPLICATION OF THE PLYMOUTH MUTUAL TELEPHONE COMPANY TO SELL ITS PROPERTY AND OF THE PLYMOUTH FARMERS' SWITCHBOARD COMPANY TO PURCHASE THE SAME, AND THE APPLICATION OF THE PLYMOUTH FARMERS' SWITCHBOARD COMPANY FOR AUTHORITY TO ISSUE AND SELL CAPITAL STOCK.

Case No. 12080.

Decided January 25, 1922.

Sale and Purchase of Property Authorized — Application for Issuance of Stock Dismissed Without Prejudice.

OPINION AND ORDER.

Application having been filed herein by the Plymouth Mutual Telephone Company and the Plymouth Farmers' Switchboard Company asking the consent and approval of the Illinois Commerce Commission to the sale by said Plymouth Mutual Telephone Company of its telephone property to said Plymouth Farmers' Switchboard Company for the consideration of \$5,000, in accordance with the terms and conditions of an agreement entered into by and between said companies on the thirteenth day of December, 1921, copy of which agreement is filed herein as petitioners' Exhibit A; and said Plymouth Farmers' Switchboard Company having made further application herein for the consent and approval of the Commission to the issuance and sale of \$5,000 aggregate par amount of its capital stock for the purpose of paying for said property, and also for authority to change the par value of its capital stock from \$10.00 to \$25.00 per share; and a hearing having been held upon said application and the matters involved therein at the office of the Commission in Springfield, Illinois, on December 23, 1921, at which the petitioners presented their evidence, and the matters having been submitted to the Commission for disposition, it appears:

That the Plymouth Mutual Telephone Company and the Plymouth Farmers' Switchboard Company are each of them corporations organized and existing under and by

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virtue of the laws of the State of Illinois; and are public utilities within the meaning of Section 10, Article 1, of an Act Concerning Public Utilities, approved June 29, 1921, and now in force in Illinois; that they each own and operate telephone properties in the same or contiguous territory in and adjacent to the village of Plymouth, county of Hancock, and State of Illinois; and the testimony herein shows that said Plymouth Mutual Telephone Company has outstanding its capital stock in the aggregate par amount of \$1,500 and that said Plymouth Farmers' Switchboard Company has its capital stock outstanding in the aggregate par amount of \$2,000, and that neither of said companies have any bonds outstanding; and that funds to pay for extensions and improvements made by each of said companies have been obtained from earnings or from short term loans.

That arrangements have been made by said Plymouth Farmers' Switchboard Company for a temporary loan to provide funds in the sum of \$5,000 for the payment of the purchase price hereinbefore mentioned; and that subsequent to said hearing said Plymouth Farmers' Switchboard Company filed its request herein asking that its application with reference to its capital stock be dismissed without prejudice; therefore, the Commission will give consideration only to said applications for the purchase and sale of property.

That the construction of the telephone property involved in said proposed purchase and sale was begun about the year 1904; and that it has been inventoried and appraised by H. B. Crandell of Springfield, Illinois, a civil engineer of twenty years' experience in telephone and telegraph work, who testified that he has made more than one hundred separate valuations in Illinois during the past four years. Said inventory and appraisal, filed herein as petitioner's Exhibit B and supported by the testimony of said Crandell, show the estimated or appraised valuation of said property of the Plymouth Mutual Telephone Company as of November 20, 1921, as follows:

Original cost	\$11,046 79
Reproduction cost	15,761 83
Cost new, less depreciation.....	11,001 02

That the above valuations were arrived at by said Crandell on the following bases: original cost by applying to the inventory average unit prices for labor and material during the years 1910 to 1914, inclusive; reproduction cost by applying to the inventory average unit prices for labor and material from 1915 to 1919, inclusive; that at the time said inventory was taken an inspection was made of the property to determine its general condition and a per cent. condition placed on each item of plant and equipment, and that said percentages have been applied to said reproduction cost new to determine the cost new, less depreciation.

That the consent of all the stockholders of said Plymouth Mutual Telephone Company has been given to said proposed sale in a signed statement to that effect filed herein as petitioner's Exhibit C and supported by the testimony of Robert L. Cloud, secretary of said company; and that the minutes of a meeting of the directors of said Plymouth Farmers' Switchboard Company held on December 10, 1921, read into the record at the hearing of this case, show the adoption of a motion to make said purchase for the consideration of \$5,000 and also that arrangements were made for a temporary loan to procure the money representing the purchase price.

That it is the intention of said purchasing company to merge the physical properties of said two companies so that the subscribers of both companies will be served from the same switchboard.

The Commission having considered said applications for purchase and sale, and the testimony and other evidence in support thereof, and being fully advised in the premises, is of the opinion, and finds: that the fair value of the property involved in said proposed purchase and sale is, for the purpose of this proceeding, at least \$5,000; that the public will be convenienceed and benefited by the merging of the physical properties of said two companies, and that said

proposed purchase and sale, transferring all of the telephone property of said Plymouth Mutual Telephone Company to said Plymouth Farmers' Switchboard Company, free of all liens, for the consideration of \$5,000, should be approved.

It is, therefore, ordered by the Illinois Commerce Commission, That the proposed purchase of all of the telephone property of the Plymouth Mutual Telephone Company by the Plymouth Farmers' Switchboard Company for the consideration of \$5,000 be, and the same is hereby, approved upon the following conditions and not otherwise:

(1) That said purchase and sale shall be carried out in accordance with the agreement entered into by and between said companies on the thirteenth day of December, 1921, and that the Plymouth Mutual Telephone Company shall deliver the property described therein and included in the inventory and appraisal submitted in this case, also any additions thereto as shown by the record herein, to the Plymouth Farmers' Switchboard Company, free of all liens and encumbrances.

(2) That the transfer of the property involved shall be consummated by the execution and delivery of a good and sufficient deed or instrument of conveyance, copy of which, duly certified, shall be filed with the Commission by the purchaser, Plymouth Farmers' Switchboard Company, within ten days after said transfer, and that said purchase and sale shall not be complete until certified copy of such deed or instrument of conveyance shall have been filed with the Commission.

(3) That the complete transfer of the property involved shall be effected within twenty days after the date of this order, and that the purchaser, Plymouth Farmers' Switchboard Company, shall make verified report of same to the Commission.

(4) That the Plymouth Mutual Telephone Company shall deliver to the Plymouth Farmers' Switchboard Company all books of account and records pertaining to the property involved herein, taking a detailed receipt therefor.

and shall file with the Commission a certified copy of such receipt within ten days after the transfer of said property.

(5) That the Plymouth Farmers' Switchboard Company shall merge the property involved in said purchase and sale with its telephone property, so that all present subscribers of either of said companies may be served from the same switchboard.

(6) That the rates for local and toll telephone service now charged in Plymouth and vicinity by said two companies and on file with the Commission, shall not be changed without further order of the Commission.

(7) That the estimated value of the property involved, represented by the purchase price authorized herein, shall not be considered as conclusive evidence of the value of said property in any rate proceeding that may be presented to the Commission.

(8) That the Plymouth Mutual Telephone Company shall, upon the transfer of the property involved herein, cease to conduct a telephone business.

(9) That the Plymouth Farmers' Switchboard Company shall cause to be made and filed with the Commission a report of the operations of the Plymouth Mutual Telephone Company from the date of the last annual report of the latter company until the time of transfer of said property.

It is further ordered, That the application filed herein by the Plymouth Farmers' Switchboard Company relative to the issuance of its capital stock and increase of the par value of the shares of said stock be, and the same is hereby, dismissed without prejudice.

By order of the Commission, at Springfield, Illinois, this twenty-fifth day of January, 1922.

INDIANA.

Public Service Commission.

In re PETITION OF THE GREENCASTLE TELEPHONE COMPANY
FOR INCREASE IN RATES.

No. 6152.

Decided November 28, 1921.

**Valuation Determined — Increase in Rates Authorized — All Special
Contracts and Free Service Ordered Discontinued — Allowance
of 5 Per Cent. on Value of Depreciable Property
Made for Reserve for Depreciation.**

OPINION AND ORDER.

On July 30, 1921, the Greencastle Telephone Company, a corporation in the city of Greencastle, engaged in furnishing telephone service in said city and vicinity, filed with the Commission a petition, the essential averments of which are as follows:

That it is a public utility under the laws of Indiana, owning and operating a telephone plant and system in the city of Greencastle and vicinity thereof, and that the following schedule of rates has been in force and effect for more than twenty years:

	<i>Per Month</i>
Independent business telephone.....	\$2 00
Independent residence and party residence telephone (city and rural)	1 25
Farmers' switching rate.....	50

Several special rates.

Petitioner further alleges that the present rates are confiscatory, inadequate, discriminatory, preferential and unreasonable, and do not produce sufficient revenue to pay operating expenses, including taxes, provide for depreciation and a reasonable return on the fair value of petitioner's property. Petitioner further represents that it is now completing a general rehabilitation and rebuilding of its property, including the installation of a new and thoroughly modern switchboard and appurtenances, and the installation of new telephone instruments throughout the city, and its service thereby has been greatly improved and is now entirely adequate and efficient.

Petitioner further alleges that it has recently made certain adjustments in its accounting methods to conform to the requirements of the Public

Service Commission; that it has decreased certain operating expenses which it believed to be unreasonably high, and the business of the company is now being carried on in an efficient and economical manner; that the revenues for the current year, based on operating results for the first six months of 1921, will under the present rates produce a gross income or a return on investment for the current year of less than \$100, and petitioner is in dire need of immediate relief. Petitioner further alleges that it has recently caused an appraisal to be made of its property by a competent telephone engineer, and that such appraisal shows the value of the physical property to be as of June, 1921, \$60,476, and the sum of \$2,000 for working capital and \$6,000 for going value are reasonable and should be allowed, and that the fair value of petitioner's property is not less than \$68,500. Wherefore, petitioner prays for a full investigation of its affairs and establishment of reasonable and adequate rates.

The cause came on for hearing in the city of Greencastle on November 3, 1921. Petitioner acknowledged error in the final summary figures of its appraisal, and submitted a corrected summary of said appraisal showing cost of reproduction value of \$82,545, with a present value of \$75,124, said error in petitioner's appraisal having been caused by a deduction of old equipment retired which had not been included in the original figures. Valuation of petitioner's property was also made by the Commission's engineering staff, which, together with that of petitioner, is shown as follows:

PETITIONER'S ENGINEERS, JUNE, 1921.

	<i>Cost of Reproduction</i>	<i>Present Value</i>
Land	\$1,370 00	\$1,370 00
Distribution system	47,546 00	41,869 00
Buildings and miscellaneous structures.....	.....	.....
Exchange equipment	17,660 00	17,660 00
General equipment	3,892 00	3,189 00
Materials and supplies.....	3,233 00	2,987 00
TOTAL	\$73,701 00	\$67,075 00
Twelve per cent. for organization, etc.....	8,844 00	8,049 00
TOTAL	\$82,545 00	\$75,124 00

COMMISSION'S ENGINEERS, AUGUST 1, 1921.

	<i>Cost of Reproduction</i>	<i>Present Value</i>
Land	\$397 00	\$397 00
Transmission system	37,004 00	30,611 00
Buildings and miscellaneous structures.....	45 00	45 00
Exchange equipment	17,139 00	17,074 00
General equipment	3,637 00	3,004 00
Paving	82 00	82 00
Materials and supplies.....	2,613 00	2,613 00
	<hr/>	<hr/>
TOTAL	\$60,917 00	\$53,826 00
Twelve per cent. for organization, etc.....	4,523 00	3,672 00
	<hr/>	<hr/>
TOTAL	\$65,440 00	\$57,498 00

Petitioner's engineers use a five-year average price from 1917 to 1921, inclusive, while the Commission's staff use an appraisal of petitioner's property which was made as of September 1, 1917, to which was added the actual cost of net additions made since said date and up to August 1, 1921. Said Commission appraisal does not reflect the inflated prices which prevailed during the succeeding years, but does include, however, the actual amounts expended for additions to the property, during said time. According to the evidence of the Commission's engineers, this resulted in a total value somewhat in excess of original cost. The Commission will use the cost of reproduction value as found by its engineering staff as a fair value of petitioner's property, to which will be added an amount in the sum of \$6,560 for intangible value enhancement, thereby producing a value for rate-making purposes in this cause of \$72,000, with a depreciable value of \$62,000.

The Commission caused its accounting staff to make an audit of petitioner's records, in order to show the financial operations during the past few years. Said audit was admitted in evidence as petitioner's Exhibit D, and shows the following income accounts for the periods indicated:

INCOME ACCOUNT.

	1918	1919	1920	January 1 to August 31, 1921
<i>Operating Revenues:</i>				
Subscribers' station revenue.	\$15,708 00	\$16,194 95	\$16,940 25	\$11,661 70
Message toll revenue.	2,504 00	3,635 81	4,190 45	2,635 57
Service connection charges.	266 83	690 83	534 00	316 50
Other miscellaneous revenue.	5 35	33 72	11 95	.....
Advertising and directory.	.....	.....	.....	24 20
TOTAL OPERATING REVENUES	\$18,484 78	\$20,555 31	\$21,676 65	\$14,637 97
<i>Operating Expenses:</i>				
Maintenance.	\$5,772 81	\$6,896 49	\$7,168 49	\$4,331 78
Traffic.	6,033 78	6,958 83	7,073 89	4,191 40
Commercial.	1,518 63	1,665 78	1,894 19	1,780 09
General and miscellaneous.	3,363 64	2,854 03	4,197 61	2,594 62
TOTAL OF ABOVE ITEMS	\$16,688 86	\$18,375 13	\$20,334 18	\$12,897 89
Taxes.	884 03	1,176 00	1,033 09	1,096 96
Uncollectable accounts.	11 15	1,326 77	240 18	.....
TOTAL OPERATING EXPENSES	\$17,584 04	\$20,877 90	\$21,607 45	\$13,994 85
NET OPERATING REVENUE	\$900 74	\$322 59	\$69 20	\$643 12
<i>Non-Operating Revenues:</i>				
Interest.	\$64 92	\$128 04	\$183 35	.....
Miscellaneous non-operating revenue.	.....	.....	2 25	.....
TOTAL NON-OPERATING REVENUES	\$64 92	\$128 04	\$185 60	.....
GROSS INCOME	\$965 66	\$194 55	\$254 80	\$643 12
<i>Deductions from gross income:</i>				
Rent of offices.	\$236 00	\$236 00	\$272 00	\$181 32
Rent of conduits, poles, etc..	35 25	7 50	7 80	5 20
TOTAL DEDUCTIONS	\$271 25	\$243 50	\$279 80	\$186 52
NET INCOME	\$694 41	\$438 05	\$25 00	\$456 60

If the eight months of 1921 were extended to an annual basis, the gross income would be but \$964, which is entirely inadequate, as it represents but slightly more than one per cent. upon a value of \$72,000. Therefore, it is plainly evident that the petitioner is entitled to an increase in revenue.

No complaints were received against the service, during the hearing of this cause. The representatives of the city stated that the service was good.

In re PETITION OF THE GREENCASTLE TELEPHONE Co. 931
C. L. 124]

An investigation reveals the fact that petitioner has not been collecting the rates as authorized by the schedule on file in the tariff department of the Commission, said official schedule being as follows:

	<i>Per Year</i>
Business telephone	\$24 00
Residence telephone, individual line.....	18 00
Residence telephone, two-party line.....	15 00
Extension telephone	6 00

The audit shows the following rates have been applied:

	<i>Per Year</i>
Business, single line	\$24 00
Business, party line.....	18 00
Residence, single line.....	15 00
Residence, two-party line.....	15 00
Residence, four-party line.....	12 00

Petitioner's attention is hereby directed to the provisions of the statutes prohibiting the charging of rates not properly authorized.

After due consideration, the Commission has compiled a schedule showing the actual and estimated requirements, which is as follows:

ACTUAL AND ESTIMATED ANNUAL REQUIREMENTS.

	<i>Twelve Months Actual. 1919</i>	<i>Twelve Months Actual. 1920</i>	<i>Eight Months Actual. 1921</i>	<i>Commission's Estimated Year</i>
Operating expenses.....	\$16,215 73	\$18,174 78	\$11,321 70	\$16,982 55
Taxes.....	1,176 00	1,033 09	1,006 96	1,645 54
Uncollectable accounts.....	1,326 77	240 18		
Rent of offices, etc.....	243 50	279 80	186 52	280 00
Depreciation.....	2,159 40	2,159 40	1,576 19	
Depreciation, 5 per cent. on \$62,000.....				3,100 00
TOTAL OPERATING REQUIRE- MENTS.....	\$21,121 40	\$21,887 25	\$14,181 37	\$22,008 09
Return, 7 per cent. on \$72,000.....				5,040 00
TOTAL REQUIREMENTS.....				\$27,048 09

ACTUAL AND ESTIMATED REVENUES.

Earning power of present rates from subscribers' stations (audit, page 17)	\$17,610 00
Estimated toll revenue	4,000 00
Advertising and other revenues	500 00
TOTAL	\$22,110 00
Amount to be provided by increased rates	4,938 09
TOTAL REQUIRED REVENUES	\$27,048 09

The Commission is of the opinion that the new schedule of gross and net rates together with the rules and regulations to be authorized herein, will provide an adequate revenue.

The Commission, being fully advised, finds that the prayer of petitioner should be granted, and it will be so ordered.

It is, therefore, ordered by the Public Service Commission of Indiana, That the Greencastle Telephone Company be, and it is, authorized and directed to charge and collect the following schedule of rates for telephone service, effective thirty days after filing with the Commission as provided in this order, and until the further order of the Commission:

	<i>Per Month</i> <i>Gross</i>	<i>Net</i>
Business, individual line	\$3 00	\$2 95
Business, two-party line	2 25	2 00
Residence, individual line	2 00	1 75
Residence, two-party line	1 75	1 50
Residence, four-party line	1 50	1 25
Rural switching (equipment owned by patrons)	60	50
Rural switching (equipment jointly owned)	85	75
Business extension, wall telephone	60	50
Business extension, desk telephone	85	75
Residence extension, desk telephone	85	75
Residence extension, wall telephone	60	50
Extension bells, large	60	50
Extension bells, small	35	25

The net rate shall be charged if the bills are paid on or before the fifteenth day of the month in which service is rendered; otherwise, the gross rate shall be charged.

To the above individual line rates, there shall be added a line mileage charge of 25 cents per month for each quarter of a mile or fraction thereof, beyond the corporate limits of said city.

It is further ordered, That where any part of the equipment is owned and maintained by the patron, petitioner shall pay to said patron the sum of 25 cents per month for each main instrument, and 15 cents per month for each extension, and 10 cents per month for each bell.

It is further ordered, That petitioner shall proceed at once to purchase any equipment necessarily used by it but owned by any of its patrons.

It is further ordered, That all special contracts and preferential rates, including any free service that may be furnished, shall be discontinued immediately upon the taking effect of this order.

It is further ordered, That on or before December 1, 1921, the Greencastle Telephone Company shall file with the tariff department of this Commission, and shall post and keep posted in its office in full view of the public during the entire period such schedule is in effect, a printed or typewritten copy of such schedule of rates, as required by Sections 41-47 of the Public Service Commission Act.

It is further ordered, That the Greencastle Telephone Company shall set aside annually for depreciation 5 per cent. of the value of its depreciable property, which value is found to be \$62,000, plus the cost of additions, extensions and betterments made subsequent to this order.

It is further ordered, That the Greencastle Telephone Company shall pay into a depreciation fund the moneys provided for depreciation, which fund shall be held separate and handled with proper accounting; that there shall be paid out of this fund all costs of meeting depreciation. Money so accumulating in said fund shall be invested, and if invested, such investment shall be made in government or other high grade listed securities which shall return to said fund not less than 4 per cent. interest per annum; or the Greencastle Telephone Company may borrow from this fund, for a period of not to exceed one year, money to cover not more than 75 per cent. of the cost of new construction, extensions or additions to the property — items properly chargeable to capital account — but, in such event, the

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Greencastle Telephone Company shall pledge to such fund its own note or bonds bearing interest at the rate of not less than 4 per cent. per annum. Such moneys so borrowed by the Greencastle Telephone Company shall be repaid in full within one year. In handling such fund, the Greencastle Telephone Company will be held strictly accountable for its safe investment, proper administration and accounting. Said accounting shall be kept double entry with the asset account designated as Depreciation Fund and the liability account designated as Depreciation Reserve.

It is further ordered, That within twenty days from the receipt of this order, the Greencastle Telephone Company shall pay to the Treasurer of State, through the secretary of this Commission, the sum of \$116.17, expenses incurred by the Commission in the investigation of this cause, as required by Section 74 of the Public Service Commission Act.

November 28, 1921.

SUPPLEMENTAL ORDER.

Decided November 28, 1921.

On November 28, 1921, the Commission issued its order No. 6152* authorizing a certain schedule of rates for the Greencastle Telephone Company; wherein it provided on page No. 7, a rate for business, individual line service of \$3.00 gross and \$2.95 net. The net rate of \$2.95 is a stenographic error which should have been \$2.75 and the Commission desires to correct the same.

It is therefore, ordered by the Public Service Commission of Indiana, That the net rate for individual line, business service of \$2.95, as shown on the first line on page No. 7 of said order No. 6152* approved November 28, 1921, be, and the same is hereby, annulled and declared void and the words and figures as follows shall be substituted in lieu thereof:

"Business, individual line..... \$2 75 net."

November 28, 1921.

* See *supra*, page 927.

In re PETITION OF THE INDIANA BELL TELEPHONE COMPANY
FOR AUTHORITY TO INCREASE EXCHANGE RATES AT
INDIANAPOLIS.

No. 6110.

Decided January 26, 1922.

**Rate of Dividend Paid on Stock of Parent Company Owning Stock of
Local Company Furnishing Service Held Not Involved in Rate Case —
Duty of Commission to Grant Relief Where Emergency Exists
That Threatens Injury — Where Necessity for Increase in Rates
is Established Beyond a Doubt Commission Required to Au-
thorize Increase — Commission Held Without Authority
to Suggest What Wages Should be Paid — Allowance of
5 Per Cent. Made for Depreciation — Allowance for
Rental Value of Instruments Made in Lieu of Pay-
ment Under Licensee Contract — Measured Serv-
ice Approved — Increase in Rates Authorized.**

Petitioner, alleging that an emergency existed, requested a temporary alteration and amendment in rates in order to prevent injury to the business of petitioner and to the service which it is required to render.

The Commission found that the present rates were established on the basis of expenses for the year 1918, plus certain pending increases in labor only; that since 1918, operating costs had increased enormously; that a considerable saving had been made by a decrease in the number of employees; that the cost of labor was more than 80 per cent. of petitioner's total operating cost, exclusive of depreciation and taxes; that on the basis of the first ten months of the year 1921, applicant for the full year would suffer a deficit of approximately \$99,142.34; that the value of applicant's whole property, as of February 1, 1922, was \$11,804,545.85, and the value of the depreciable property, as of the same date, \$10,639,734.19.

The Commission stated that the question of a reasonable allowance for depreciation depended to a considerable extent upon the actual operation of the fund in the past; that experience had shown that a public utility in the normal operation of its business should expend currently from 40 per cent. to 60 per cent. of the amount set up for depreciation; that in this case petitioner's realized depreciation had amounted in the past to approximately 50 per cent. of the amount set aside; that heretofore the Commission had fixed a rate of depreciation for the company of 5 per cent., but that the evidence indicated that such an allowance was possibly insufficient and at least not excessive; that if the Commission were to reverse itself and allow nothing for depreciation, then all charges made to the depreciation account would be included in

maintenance, and as the depreciation allowance was reduced the maintenance cost would be increased.

The Commission further found that applicant's taxes had increased from \$91,616.97 in 1918 to \$227,709.52 in 1921; that a contract existed between the Indiana Bell Telephone Company and the American Telephone and Telegraph Company covering the handling of toll business, but that there was no evidence tending to show that the division of the toll revenue on business jointly handled was not on a fair basis; that in lieu of the payment under the $4\frac{1}{2}$ per cent. agreement, petitioner asked only for an allowance as an operating expense of the rental value of the instruments, and that nothing less rightfully could be authorized.

In discussing the relationship existing between the American Telephone and Telegraph Company and the Indiana Bell Telephone Company the Commission stated that from all the evidence adduced it could not be said that the payments made to the American Telephone and Telegraph Company, as stated in the opinion, had been unreasonable or unfair, nor had such payments adversely affected petitioning company.

The Commission further found that the prices paid by the Indiana Bell Telephone Company to the Western Electric Company were no higher and in many cases lower than the prices of independent manufacturers for material and equipment of the same specifications; that the prices of the Western Electric Company were reasonable, and its profits not excessive; that the cost of materials entering into the operating expenses of the company were less than 4 per cent. of the total operating costs, and therefore relatively of little importance as affecting rates; that petitioner was entitled to an increase in rates, and that the schedule hereinafter authorized would result in an increase in revenue of approximately \$440,000.

Held: That the rates subscribers must pay for service were not affected in the least by the fact that the stock of the company furnishing the service was owned by a parent company, the stock of which was selling above par and was paying a high dividend rate, and therefore not involved in a local rate case;

That where the evidence showed that an emergency existed which threatened injury to the business of the company or to the interests of the people, it was the duty of the Commission to promptly hear and determine the case, and to grant such relief as would abate or avert the emergency;

That where the evidence was complete and positive, and the necessity for an increase in rates established beyond a doubt, there was nothing for the Commission to do but to follow the plain mandate of the law;

That it was not within the province of the Commission to suggest what wages should be paid by a public utility, but was within its

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province to state the fact that the wages paid to employees were reasonable and not excessive;

That an allowance of 5 per cent. on the value of the depreciable property as reserve for depreciation would not be excessive;

That measured service was desirable for the reason that the cost of furnishing service was by this method charged against the subscriber as nearly as possible in accordance with the cost of furnishing service to such subscriber;

That effective February 1, 1922, or at such later date as the work of unification of the telephone services now in process should be completed, applicant should be authorized to charge the rates as set forth at length in the order herein entered, which order provided among other things for the following increases: single line business, unlimited, from \$7.00 to \$9.00; two-party business, unlimited, from \$6.00 to \$7.00; extension, from \$1.25 to \$1.50; business measured single line, 1,200 messages, from \$4.50 to \$5.00 for 1,440 messages per annum; extension of same, from 50 to 75 cents; residence unlimited single, from \$3.25 to \$3.75; residence unlimited two-party, from \$2.25 to \$2.75; residence extension, from 75 cents to \$1.00; residence measured (new service) two-party, 90 calls per month, \$2.25; rural business, unlimited, from \$2.75 to \$3.25; rural residence, from \$2.00 to \$2.25.

OPINION AND ORDER.

Public hearing held at the State House commencing Wednesday, January 4, 1922.

The petition is for temporary emergency rates, and the material averments thereof are as follows:

1. That the petitioner is a corporation organized under the laws of the State of Indiana, having its principal place of business at Indianapolis, and is a public utility within the purview of the Shively-Spencer Utility Commission Act, and is engaged in furnishing telephone service to the public at the city of Indianapolis and elsewhere in the State of Indiana.

2. That prior to April 1, 1920, the Central Union Telephone Company, the predecessor of petitioner, and the Indianapolis Telephone Company, as competitors, each owned and operated a telephone exchange plant at said city of Indianapolis, said systems being known as "manual" and "automatic," respectively.

3. That by the authority of the Public Service Commission of Indiana the Central Union Telephone Company purchased the property of the Indianapolis Telephone Company and was ordered by the Commission to make physical connection between the said telephone systems and to complete the unification of service without unnecessary delay.

4. That by authority of an order of this Commission the petitioner purchased the property of the Central Union Telephone Company, including the property formerly owned by the Indianapolis Telephone Company, and since April 1, 1920, has operated both of said systems, has complied with the orders of the Commission in relation to the unification of service, and has expended more than \$1,000,000 in making the physical connection of said properties, which now is designed to be made complete on or about January 21, 1922.

5. That since March 1, 1920, pursuant to the provisions of an order * of this Commission approved February 9, 1920, there has been in effect a certain schedule of rates, tolls, and charges upon which "manual" telephone service at the city of Indianapolis was furnished by petitioner's predecessor, the Central Union Telephone Company, prior to April 1, 1920, and in accordance with which schedule such service has been furnished by the petitioner since April 1, 1920.

That since March 2, 1909, there has been in effect a certain schedule of rates for service supplied by the Indianapolis Telephone Company, and in conformity with which "automatic" telephone service has been furnished by the petitioner since April 1, 1920.

6. That in its order * of February 9, 1920, the Commission, among other things, and for the purpose of the particular case then before it, made a tentative valuation of the exchange property of the petitioner at Indianapolis (then owned by the petitioner's predecessor), fixed a rate of depreciation, estimated the annual revenues and the annual requirements of the petitioner, and authorized rates for service which were designed to produce a return of 7 per cent. upon the tentative valuation fixed by the Commission in said order. The petitioner does not tender an issue for a review in this proceeding of said finding and order, but alleges in relation thereto as follows:

That said tentative valuation of the telephone exchange property at Indianapolis then under consideration by the Commission and now owned by the petitioner, was, and is, wholly insufficient.

That the rate and amount of depreciation provided by said order was, and is, inadequate.

That the Commission's own estimate of annual revenues and of annual requirements of the Indianapolis exchange showed even then that the rates provided by said order would produce revenues less than the requirements at said exchange in the sum of \$64,418.12.

That the rate of return which said order was designed to produce was not and is not a fair rate of return. That even such insufficient rate of return has not been realized even when computed upon such insufficient tentative valuation, and upon the actual cost of net additions

* See Commission Leaflet No. 100, p. 1234.

made to the Indianapolis exchange property since said tentative valuation was found.

7. That said order * of February 9, 1920, was entered by the Commission in the expectation that prices of labor and material necessary to the operation of telephone properties would recede, and that the rates provided in said order would be sufficient. On the contrary, since said order was entered rates of interest have advanced, the prices of materials have not been substantially diminished, and the cost of labor of the character required in the operation of telephone properties has not decreased.

That the rates provided by said order * of February 9, 1920, under which "manual" service has been rendered, and the rates now in force under which "automatic" service has been furnished, have not yielded to the petitioner revenue sufficient to pay operating expenses, and have produced nothing whatever for a return upon the property of the petitioner at its Indianapolis exchange, although based upon the insufficient tentative valuation aforesaid and the actual cost of net additions to the petitioner's exchange property since said tentative valuation was made. That after the consolidation of said telephone systems at the city of Indianapolis the rates authorized by said order * of February 9, 1920, when applied to such tentative valuation aforesaid, and the actual cost of subsequent net additions, will not produce annual revenues sufficient to pay even the expense of operating said properties when combined, and will not be sufficient, by the sum of approximately \$1,000,000, to yield even a 7 per cent. return upon such insufficient tentative valuation, together with the actual cost of such net additions.

8. That on June 28, 1921, the petitioner filed its petition in this cause, asking the approval of a certain schedule of rates which are designed to yield a fair return upon the fair value of the petitioner's exchange property at the city of Indianapolis. That a financial statement was filed by the petitioner showing the revenues and expenses of the Indianapolis exchange, and that an inventory and appraisal of the property at such exchange were filed by the petitioner with the Commission. That an audit of the books of the petitioner, covering the operations at said exchange, has not yet been completed, that no appraisal of the petitioner's property at Indianapolis has been made by the Commission's staff of engineers, and that said cause has not been set for trial. That if such examinations, investigations, and appraisals should cause delay in the trial of this cause upon the issues tendered by the original petition herein, such delay, in the event no relief is granted to the petitioner in the meantime, will cause further great and serious damage to the petitioner and will result in injury to the petitioner's business and to the interests of the people. That with the rates and charges now in

* See Commission Leaflet No. 100, p. 1234.

force it is impossible for the petitioner to obtain additional capital to make additions and extensions necessary to care for the growth of petitioner's business at Indianapolis or to furnish that commodity most essential to the public — the highest character of telephone service.

9. That in its order * of February 9, 1920, above referred to, the Commission said: "Upon the complete unification of service at Indianapolis an entire new rate structure will be necessary. The rates provided in this order are therefore temporary and will be continued until such unification is completed." That petitioner is now about ready to complete such unification, whereupon, by the terms of said order, the rates therein approved will cease to be effective. That such new rate structure urgently is required, and an increase in existing rates must be made to enable the petitioner properly to operate said properties when combined, and to realize from such operation at least a partial return upon the fair value of the petitioner's property at said exchange. That such relief is necessary to preserve the property of the petitioner from confiscation and to protect the interests of the public.

10. That for the reasons stated an emergency exists for the temporary alteration and amendment of the rates, tolls, and charges now in force for service rendered by the petitioner at its Indianapolis exchange in order to prevent injury to the business of the petitioner and to the service which the petitioner is required to furnish to the public.

Attached to and made a part of the petition as Exhibit A is a schedule of the present rates for automatic service and the present rates for manual service, which schedules of rates are in the following words and figures:

* See Commission Leaflet No. 100, p. 1234.

EXHIBIT A.

SCHEDULE OF MONTHLY RATES FOR EXCHANGE SERVICE.

INDIANAPOLIS, INDIANA.

(Including Beech Grove, Ben Davis, Broad Ripple, Southport.)

Class of Service

<i>Business, Unlimited:</i>	<i>Automatic</i>	<i>Manual</i>
Individual line	\$4 50	\$7 00
Two-party line	3 00	6 00
Joint user	50	1 50
Extension station on same premises.....	83½	1 25

<i>Business, Measured:</i>		
Individual line, 1,200 messages per annum....	none	4 50
Two-party line, 840 messages per annum....	none	3 50
Additional messages, each.....	none	3
Joint user	none	50
Extension station on same premises.....	none	50

Coin Collector, Semi-Public:

Messages, each	none	5
Individual line, guarantee per day.....	none	15
Commission on local messages, receipt in excess of guarantee, individual line.....	none	40 per cent.

Residence, Unlimited:

Individual line	\$2 00	\$3 25
Two-party line	1 50	2 25
Four-party line	1 25	none
Extension station on same premises.....	50	75
Joint user	25	1 00

Rural, Unlimited:

Business	1 50	2 75
Residence	1 50	2 00

Private Branch Exchange, Business, Unlimited:

Cord Switchboard:

Minimum equipment (switchboard not exceeding 30 jacks, operator's set, 2 trunks and 2 stations).....	26 00
Additional trunks, each	10 00
Additional stations, each.....	1 50
Additional jacks, per strip of 10.....	50

*Class of Service**Cordless Switchboard:**Automatic Manual*

Minimum equipment (switchboard, operator's set, 1 trunk and 2 stations).....	\$15 50
Maximum equipment (3 trunks and 7 stations).....	10 00
Additional trunks, each.....	10 00
Additional stations, each.....	1 50
Additional jacks, per strip of 10.....	50

*Private Branch Exchange, Business, Measured:**Cord Switchboard:*

Minimum equipment (switchboard not exceeding 30 jacks, operator's set, 1,680 messages per annum, 2 trunks and 2 stations).....	14 00
Additional messages, each.....	3
Additional trunks, each.....	2 50
Additional stations, each.....	75
Additional jacks, per strip of 10.....	50

Cordless Switchboard:

Minimum equipment (switchboard, operator's set, 1,680 messages per annum, 1 trunk and 2 stations).....	11 00
Maximum equipment (3 trunks and 7 stations).	
Additional messages, each.....	3
Additional trunks, each.....	2 50
Additional stations, each.....	75

Private Branch Exchange, Hotel, Measured:

Minimum equipment (switchboard not exceeding 30 jacks, operator's set and 15 stations).....	12 00
Additional stations, each.....	60
Additional jacks, per strip of 10.....	50
Messages each (including necessary trunks).....	5
Commission on local message receipts.....	40 per cent.
Coin collectors	50

Intercommunicating System, Business, Unlimited:

Minimum equipment (1 trunk and 4 stations).....	18 50
Maximum equipment (20 trunks and stations combined).	
Additional trunks, each.....	10 00
Additional stations, each.....	2 00
Additional units of cable, 30 ft. or fraction thereof.....	25

Intercommunicating System, Residence, Unlimited:

Minimum equipment (1 trunk and 4 stations).....	12 00
Maximum equipment (20 trunks and stations combined).	
Additional trunks, each.....	3 25
Additional stations, each.....	2 00
Additional units of cable, 30 ft. or fraction thereof.....	25

Class of Service

<i>Private Branch Exchanges:</i>	<i>Automatic</i>	<i>Manual</i>
Switchboard, each	\$0 83 $\frac{1}{3}$	
Substation telephone within the same building, each	83 $\frac{1}{3}$	
Substation telephones outside building (2 cable pairs) per mile, each.....	2 50	
Substation telephones, outside building (1 cable pair) within 1,200 ft., each.....	1 66 $\frac{2}{3}$	
Trunk lines	4 50	
Substation telephones within the same building but equipped with automatic apparatus and connected with private manual exchanges, each	1 00	
<i>Private Automatic Exchange, Unrestricted Stations:</i>		
Unit of 25 lines.....	15 00	
Stations 6 or less, each.....	1 50	
Stations 7 to 12, inclusive, each.....	1 33 $\frac{1}{3}$	
Stations 13 to 25, inclusive, each.....	1 16 $\frac{2}{3}$	
Unit of 50 lines.....	20 00	
Stations 6 or less, each.....	1 50	
Stations 7 to 12, inclusive, each.....	1 33 $\frac{1}{3}$	
Stations 13 to 25, inclusive, each.....	1 16 $\frac{2}{3}$	
Stations 26 or more, each.....	1 08 $\frac{1}{3}$	
Unit of 90 lines.....	30 00	
Stations 6 or less, each.....	1 50	
Stations 7 to 12, inclusive, each.....	1 33 $\frac{1}{3}$	
Stations 13 to 25, inclusive, each.....	1 16 $\frac{2}{3}$	
Stations 26 or more, each.....	1 08 $\frac{1}{3}$	
Unit of 150 lines.....	50 00	
Stations 6 or less, each.....	1 50	
Stations 7 to 12, inclusive, each.....	1 33 $\frac{1}{3}$	
Stations 13 to 25, inclusive, each.....	1 16 $\frac{2}{3}$	
Stations 26 or more, each.....	1 08 $\frac{1}{3}$	
Unit of 200 lines.....	70 00	
Stations 6 or less, each.....	1 50	
Stations 7 to 12, inclusive, each.....	1 33 $\frac{1}{3}$	
Stations 13 to 25, inclusive, each.....	1 16 $\frac{2}{3}$	
Stations 26 or more, each.....	1 08 $\frac{1}{3}$	
<i>Private Automatic Exchange, Restricted Stations:</i>		
Unit of 25 lines.....	15 00	
Unit of 50 lines.....	20 00	
Unit of 90 lines.....	30 00	
Unit of 150 lines.....	50 00	
Unit of 200 lines.....	70 00	
Stations, units of 25, 50 and 90 lines, each....	1 00	
Stations, units of 150 and 200 lines, each....	91 $\frac{2}{3}$	

*Class of Service**Intercommunicating System:**Automatic**Manual*

Substation telephones

\$1 25

Trunk lines

4 50

Private Branch Exchange, Hotel:

Stations, each

41 $\frac{2}{3}$ *Colonial and Spencer Hotels:*

Switchboard

None

Stations

None

Trunks

None

Messages, each

5

Linden Hotel:

Switchboard

12 50

Stations and trunks

40 00

Messages, each

5

Edwards Hotel:

Switchboard

50 00

Stations

None

Trunks, each

4 50

Messages, each

5

Commission on message receipts

50%

Bates Hotel:

Equipment

29 $\frac{2}{3}$

Messages

Free

*Individuals:**Standard Tea and Grocery Company:*

Twelve outside stations on P.B.X. board....

2 00

A. B. Meyer and Company:

Six outside stations on P.B.X. board.....

2 00

Blacherne:

Each station and main line.....

1 00

Chandler and Taylor:

Each first main line

3 33 $\frac{1}{3}$

Each second main line

1 66 $\frac{2}{3}$ *Public Pay Stations, Automatic:*

(a) A public pay station is installed where no additional telephone is subscribed for a guarantee of \$4.50 per month, the subscriber to receive 50 per cent. of all additional revenue in excess of a guarantee rental.

(b) Where a business house has its own individual telephone, a pay station will be installed for 50 per cent. of the collection on city calls; for 90 per cent. of the originating toll business.

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Class of Service

Breakage, Keys, Switches, Etc.:

Automatic

Manual

Cost, including cost of handling, supervision,
etc.

Extension Bells and Gongs:

Extension bells, each, per month.....	\$0 25	\$0 25
Extension gongs, each, per month.....	41 $\frac{2}{3}$	25

Extra Directory Listing:

Business, members of same firm, per month...	25	50
Residence, members of same firm, per month..	25	25

Extra Long Cords:

New cords and renewals, in excess of 6 feet, per foot	None	50
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Long Distance Terminals:

Furnished only as auxiliary to exchange serv- ice, per month.....	1 00	3 25
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Pay Station Local Calls:

Five cents for a five-minute period or a frac-
tion thereof, and 5 cents for each addi-
tional five minutes or a fraction thereof.
The charge is made if the telephone called
for is reached; all such calls being handled
on a two-number basis.

Private Lines Within Local Service Area:

First mile or fraction by route of wire, per month	None	3 00
For additional $\frac{1}{4}$ mile or fraction by route of wire, per month.....	None	75
Instruments, each, per month.....	None	1 00

Push Button and Buzzer:

For signalling extension stations from main station, each 50 ft. or fraction of circuit in- volved, per month.....	25	None
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Registered Calls:

Business, per month.....	1 00	None
Residence, per month.....	50	None

Business and Residence Connection:

One business and one residence telephone con- nected together on one number using 2 cable pairs, per month.....	6 50	None
Cut-off switches, per month.....	25	None

<i>Class of Service:</i>	<i>Automatic</i>	<i>Manual</i>
<i>Extra Exchange Line Mileage Rates:</i>		
(Per $\frac{1}{4}$ mile or fraction thereof by route of wire):		
Individual line, per month.....	\$0 50	\$0 50
Two-party line, each subscriber, per month.	50	31 $\frac{1}{4}$
P.B.X. or telephone extension station located in different premises, per month....	.....	62 $\frac{1}{2}$
P.B.X. trunk line extended beyond exchange radius, per month.....	.....	50
Business extension station installed within 1,200 ft. outside of building in which main telephone is installed, per month.....	1 66 $\frac{2}{3}$	.....
Two-party service beyond the manual exchange radius, furnished only when two parties are actually connected at the two-party rate for the entire extra radius.		

Attached to and made a part of the petition as Exhibit B is a schedule of the proposed rates, which schedule is in the following words and figures, to-wit:

EXHIBIT B.

SCHEDULE OF MONTHLY RATES FOR EXCHANGE SERVICE.

INDIANAPOLIS, INDIANA.

(Including Beach Grove, Ben Davis, Broad Ripple, Southport.)

Class of Service

Business, Unlimited:

Individual line	\$11 00
Joint user on individual line.....	5 50
Extension station on same premises.....	1 50

Business, Measured:

Individual Line:

Ninety or less messages, per month.....	5 50
Next 60 messages, each.....	05
Next 50 messages, each.....	04
Above 200 messages, each.....	035
Joint user on individual line.....	1 00
Extension station on same premises.....	1 00

Class of Service:

Coin Collector, Semi-Public:

Messages, each	\$0 05
Individual line, guarantee per day.....	25
(Installed only in locations approved by the telephone company and where there is a probability of public use.)	

Residence, Unlimited:

Individual line	4 50
Two-party line	3 50
Extension station on same premises.....	1 00

Residence, Measured:

Two-party line, 60 or less messages, per month.....	2 75
Additional messages, each.....	045
Extension station on same premises.....	75

Rural, Unlimited:

Business	4 00
Residence	3 00

Suburban, Unlimited:

Business, four-party line.....	5 00
Residence, four-party line.....	3 75
(Offered only outside and within 2 miles of the base rate area and when four subscribers per line are secured.)	

Extra Listings:

Business	1 00
Residence	50

Private Branch Exchange, Unlimited:

Cord switchboard, one position, non-multiple switchboard, not exceeding 30 jacks and operator's set.....	6 00
Additional switchboard positions, each.....	3 00
Additional jacks, per strip of 10.....	1 00
Cord switchboard, multiple switchboard (including op- erator's set and 1 jack per line), per position.....	15 00
Multiple jacks with signals, per strip of 10.....	50
Multiple jacks without signals, per strip of 10.....	30
Cordless board and operator's set (capacity 3 trunks and 7 stations)	3 00
Stations on same premises, each.....	1 50
Stations on same premises, equipped with machine switch- ing dials, each	1 75
Stations, including switching devices, on same premises, intercommunicating system (maximum capacity 10 trunks and stations combined), each.....	2 50

*Class of Service:**Private Branch Exchange, Unlimited:*

Stations, including switching devices, on same premises, equipped with machine switching dials, intercommunicating system (maximum capacity 10 trunks and stations combined), each.....	\$2 75
Trunks, business, each.....	16 50
Trunks, intercommunicating residence, each.....	6 75
Joint user	8 25
Power generator line, per $\frac{1}{4}$ mile or fraction.....	75
Rates quoted for intercommunicating systems, including 30 ft. of cable, per station.	
Additional units of cable, 30 ft. or fraction.....	25
Cord switchboards will be furnished only to subscribers contracting for at least two trunks.	

Private Branch Exchange, Measured:

Cord switchboard, one position, non-multiple switchboard, not exceeding 30 jacks and operator's set.....	6 00
Additional switchboard positions, each.....	3 00
Additional jacks, per strip of 10.....	1 00
Cord switchboard, multiple switchboard (including operator's set and 1 jack per line), per position.....	15 00
Multiple jacks with signals, per strip of 10.....	50
Multiple jacks without signals, per strip of 10.....	30
Cordless board and operator's set (capacity 3 trunks and 7 stations)	3 00
Stations on same premises, each.....	1 00
Stations on same premises, equipped with machine switching dials, each.....	1 25
Stations, including switching devices, on same premises, intercommunicating system (maximum capacity 10 trunks and stations combined), each.....	2 00
Stations, including switching devices, on same premises, equipped with machine switching dials, intercommunicating system (maximum capacity 10 trunks and stations combined), each.....	2 25
First trunk and 250 or less messages.....	12 50
Additional trunks, each.....	2 50
Additional messages, each.....	03½
Joint user	1 00
Power generator line, per $\frac{1}{4}$ mile or fraction.....	75
Rates quoted for intercommunicating systems, including 30 ft. of cable, per station.	

Class of Service:

Private Branch Exchange, Measured:

Additional units of cable, 30 ft. or fraction.....	\$0 25
Cord switchboards will be furnished only to subscribers contracting for at least two trunks and 500 messages per month.	

Hotel System Measured:

Cord switchboard, one position, non-multiple switchboard, not exceeding 30 jacks and operator's set.....	6 00
Additional switchboard positions, each.....	3 00
Additional jacks, per strip of 10.....	1 00
Cord switchboard, multiple switchboard (including operator's set and 1 jack per line), per position.....	15 00
Multiple jacks with signals, per strip of 10.....	50
Multiple jacks without signals, per strip of 10.....	30
Stations on same premises, each.....	75
Stations on same premises, equipped with dials, each....	1 00
Messages (including necessary trunks), each.....	05
Power generator line, each $\frac{1}{4}$ mile or fraction.....	75
Minimum equipment, 15 stations.	

Private Branch Exchange, Machine Switching Equipment:

Stations on Same Premises Equipped with Machine Switching Dials:

Unlimited, each	1 75
Measured, each	1 25

Machine Switching Apparatus:

Connectors, each	2 50
Selectors, each	2 00

Machine Switching Terminals of:

Tie lines to other P. B. X. systems (in addition to any circuit charges applicable):	
(a) When arranged to select or to be selected by a mechanical station, each.....	2 00
(b) When arranged to select and to be selected by a mechanical station, each.....	4 00
Attendant dial trunks, to the manual P. B. X. switchboard, each	75
Position dial, one for each manual position.....	No charge
Power plant equipment, for each station, connector, selector, attendant dial trunk, dialing central office trunk, and machine switching tie line terminal.....	15
With a minimum charge of.....	35 00

*Class of Service:**Machine Switching Terminals of:*

Power supply required for the operation of the private branch exchange system will be supplied by the subscriber at his expense and at a commercial voltage.

Joint User Service:

Not more than two joint users on an individual line or on each P. B. X. trunk.

Breakage, Keys, Switches, Etc.:

Cost, including cost of handling, supervision, etc.

Extension Bells and Gongs:

Extension bells, each, per month.....	\$0 25
Extension gongs, each, per month.....	75

Extra Long Cords:

New cords and renewals in excess of 6 feet, per foot....	50
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Extra Operator's Set:

Including chest transmitters, each, per month.....	30
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Extra Receivers:

Hand or watch case, each, per month.....	15
Single head, each, per month.....	25
Double head, each, per month.....	35

Key Cabinet:

Each key and lamp, per month.....	50
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Pay Station Local Calls:

Five cents for a five-minute period or a fraction thereof, and 5 cents for each additional five minutes or a fraction thereof. The charge is made if the telephone called for is reached; all such calls being handled on a two-number basis.

Private Lines Within Local Service Area:

First mile or fraction by air line measurement, per month	6 00
For additional $\frac{1}{4}$ mile or fraction by air line measurement, per month.....	1 50
Instruments, each, per month.....	1 00

Push Button and Buzzer:

For signalling extension stations from main station, each 50 ft. or fraction of circuit involved, per month.....	25
--	----

Class of Service:

Restoral Charge:

For reconnecting subscriber whose service has been denied
on account of non-payment of charges, each..... \$0 50

Tie Lines:

Private branch exchange switchboards where located
within the same area: First mile or fraction by air
line measurement, per month..... 6 00

For each additional $\frac{1}{4}$ mile or fraction by air line
measurement, per month..... 1 50

NOTE: Tie line circuits will be furnished to any subscriber
having two or more private branch exchanges, but only
in the case such subscribers have at least one trunk circuit
for each private branch exchange to the central office of
the telephone company.

Extra Exchange Line Mileage Rates:

(Per $\frac{1}{4}$ mile or fraction thereof by air line measurement):

Individual line or private branch exchange trunk line,
extending beyond boundary of the base rate area;
telephone extension stations or private branch ex-
change stations located in different premises, per
month 1 00

Two-party line, each subscriber, per month..... 75

Two-party service extended beyond boundary of the
base rate area will be furnished only when two parties
contract for service in the same vicinity. They shall
be charged at the two-party rate for the air line
mileage of each.

The matters involved in this case may be divided into
two main divisions, each of which may be divided into
several subdivisions.

In the first main division may be grouped the points that
under the law are material and pertinent, as follows:

(1) The character of service rendered by petitioner.

(2) Its revenues:

- (a) Revenue from present manual rates.
- (b) Revenue from present automatic rates.
- (c) Revenue from present manual rates after unification.
- (d) Revenue from proposed rates.
- (e) Effect of proposed rates on the number of subscribers.
- (f) Effect of any increase on the number of subscribers.
- (g) Revenue from tolls.
- (h) Apportionment of toll revenue.

- (3) Its operating expenses:
 - (a) Operating expense other than depreciation and taxes.
 - (b) Taxes.
 - (c) Depreciation.
 - (d) Rental of receivers, transmitters and induction coils.
 - (e) Salaries and wages.
 - (f) Material prices.
 - (g) Western Electric prices.
- (4) Property value:
 - (a) Value found in order * of February 9, 1920.
 - (b) Cost of property purchased.
 - (c) Cost of property added to manual system.
 - (d) Cost of property added to automatic system.
 - (e) Cost of unification.
 - (f) Whether all of the property included above is used and useful.
- (5) Rate of return.

In the second main division may be grouped the points that under the law are not directly material or pertinent but which, nevertheless, may be discussed for the reason that they are generally, though mistakenly, believed to be directly involved.

- (1) Dividends paid by the American Telephone and Telegraph Company on its stock.
- (2) Revenue derived by the American Telephone and Telegraph Company from the Indiana Bell Telephone Company for toll service.
- (3) The American Telephone and Telegraph Company's toll system.
- (4) Revenue derived by the American Telephone and Telegraph Company from the Indiana Bell Telephone Company under the license contract.
- (5) Relationship of the Indiana Bell Telephone, American Telephone and Telegraph and the Western Electric Companies.
- (6) Who owns the American Telephone and Telegraph Company's stock?
- (7) American Telephone and Telegraph Company's revenues.
- (8) Relationship of the Indiana Bell Telephone Company's business to the whole American Telephone and Telegraph Company's business.
- (9) Telephone rates in other cities.
- (10) Prior telephone rates in Indianapolis.

* See Commission Leaflet No. 100, p. 1234.

ANSWERS OF RESPONDENTS.

Subsequent to the filing of the petition herein and prior to the hearing the city of Indianapolis by its corporation counsel filed written objection to the granting of the petition, for reasons therein set forth.

A written answer opposing the proposed increase in telephone rates was filed by Ira Chas. Koehne representing certain subscribers. Thereupon the petitioner filed written motion to dismiss and strike from the files the answer of Mr. Koehne for the reason that said answer charges fraud, conspiracy and violations of law, charges which require strict proof, and that said answer is not supported by any evidence showing or tending to show that such charges are true.

The answer filed by Mr. Koehne above referred to does charge the petitioner with fraud, conspiracy and other violations of the criminal law. Nothing whatever was offered by Mr. Koehne and nothing appears in the evidence showing or tending to show that the allegations of his answer are true. The Commission therefore should, and does now sustain the motion of petitioner to dismiss and strike from the files the answer filed by Mr. Koehne above referred to.

PROTESTS.

The Commission has received more than two thousand protests, remonstrances and threats concerning this case. Included in the total of communications received are a large number of anonymous communications, which, of course, deserve no answer. A hundred or more letters have been received, enclosing a copy of a circular of a certain bond and stock house, offering the stock of the American Telephone and Telegraph Company for sale at \$115 per share, and stating that such stock will pay \$9.00 in dividends per year. A considerable number of communications have been received commending the service of the telephone company and advocating fair treatment and a reasonable return on the property value. All signed communications have been acknowledged and filed.

AMERICAN TELEPHONE AND TELEGRAPH COMPANY'S DIVIDENDS.

The fact, which is well-known to the Commission, that the stock of the American Telephone and Telegraph Company pays 9 per cent. dividends, and that such stock has paid dividends for forty years or more, has nothing whatever to do with this case.

It is true that the stock of the American Telephone and Telegraph Company has a present market value of about \$115 per \$100 share, and that such stock is paying dividends of \$9.00 per share, per year. It is also true that each of such shares of stock represents an actual property investment of something over \$136. These points are not material in this case and do not in the slightest degree affect the rates of the subscribers of the Indiana Bell Telephone Company. It might, however, be interesting to note that the stock of the American Telephone and Telegraph Company is held by approximately 150,000 different stockholders, no one of whom holds as much as one per cent. of such stock, practically all of whom are people in moderate circumstances and a large number of whom are residents and citizens of Indiana.

STATUS OF CASE.

The Commission, in its order* of February 9, 1920, authorizing the rates now in effect at Indianapolis, had the following to say concerning such rates:

"A slight increase in rates is justified at Indianapolis. The consolidation and unification of the systems of the Central Union Telephone Company and the Indianapolis Telephone Company is now pending, and an agreement for the purchase of the property of the Indianapolis Telephone Company has already been entered into. The consolidation of these two systems is urgently needed and should not be delayed. Upon the complete unification of service at Indianapolis, an entire new rate structure will be necessary. The rates provided in this order are therefore temporary, and will be continued until such unification is completed."

* See Commission Leaflet No. 100, p. 1234.

This case is filed under the emergency section of the Public Service Commission Act, which reads as follows:

"(122) The Commission shall have power, when deemed by it necessary, to prevent injury to the business or interests of the people, or any public utility of this State, in case of any emergency to be judged of by the Commission, to temporarily alter, amend, or with the consent of the public utility concerned, suspend any existing rates, schedules and order relating to or affecting any public utility or part of any public utility in this State. Such rates so made by the Commission shall apply to one or more of the public utilities in this State or to any portion thereof as may be directed by the Commission, and shall take effect at such time and remain in force for such length of time as may be prescribed by the Commission."

It is the duty of the Commission promptly to hear and determine this case. If the evidence shows that an emergency exists which threatens injury to the business or interests of the people, or to the business or interests of the utility, the Commission has no discretion in the matter. It must proceed to give such relief as will abate the emergency if it is found to exist, or avert it if it is found to be impending.

The completion of the unification, which is expected by February 1, of itself creates an emergency situation as to the rates. The existing orders make no provision whatever for any rates of any kind or character for the automatic subscribers after the unification is completed. The least the Commission could do by way of adjustment of rates, would be to put the automatic subscribers on the schedule of rates now applicable to manual subscribers. It is obvious that after unification, when all subscribers, both automatic and manual, have exactly the same service, that a schedule of rates should be in effect applicable alike to all of such subscribers both automatic and manual, without discrimination.

The orders now in effect may also fairly be construed to mean that the present rates for manual subscribers shall expire when the unification is complete. It was the understanding and the intention of the Commission when the

last rate order was issued, that as soon as unification was completed a new and revised schedule of rates would be and should be prescribed.

The original petition filed June 28, 1921, asks the Commission to authorize considerably higher rates than the rates prayed for in this emergency petition. This being an emergency order on an emergency petition, necessarily the rates are more or less temporary in character. The Commission in due time will determine the merits of the original petition. In that proceeding full consideration will again be given to the value of the property, the license contract, the rate of depreciation, rate of return, the toll contracts and revenues, the Western Electric Company's prices, and various other phases of the matter. The investigation by the Commission's own agents, which has been in progress for several months, will continue until the final hearing and determination of the original case.

The Commission realizes the importance of this case. Its staff of expert accountants, rate men and special agents have devoted several months to a thorough and painstaking investigation of every phase of the matter. The Commission is most reluctant to increase any public utility rate at this time. The evidence must be complete and positive. The necessity must be established beyond a doubt. If the evidence is complete and positive, and the necessity for an increase in rates is established beyond a doubt, then there is nothing for the Commission to do but follow the plain mandate of the law.

This case is singularly free from points of serious controversy. The character of service generally in the Indianapolis exchange area is excellent. The value of the property is not involved, for petitioner, in this emergency case, is asking only for a return based on the tentative value heretofore found, plus the additions at cost. The rate of depreciation is not involved, for petitioner is asking only for the rate heretofore allowed, such rate being the minimum that could be seriously considered. There is no question about the amount of the depreciable property.

The payment by the Indiana Bell Telephone Company to the American Telephone and Telegraph Company of the 4½ per cent. under the license contract is eliminated from the case. Petitioner asks only for an allowance as an operating expense of the rental value of the instruments, and nothing less rightfully could be authorized. There is no question about the accuracy or completeness of the audits produced by the Commission's accountants.

SERVICE.

The one serious criticism of the service of petitioner concerns the number of applications for service on file and the length of time such applications have been pending. There are a considerable number of applications pending, and some of them have been pending for an unreasonable length of time. The evidence shows that these deferred applications are almost all for manual service and that the manual equipment at certain exchanges is in use to its maximum capacity. This condition will be remedied as soon as the unification is complete, after which there will be ample facilities to take care of all applications for service at all exchanges.

OPERATING EXPENSES.

The present rates were established on the basis of expenses for the year 1918, plus certain pending increases in labor only. It was believed at that time that such rates would yield a fair return to petitioner if some reduction could be made in operating costs. Since 1918 operating costs have enormously increased. The peak of cost was in 1920. Since 1920 there has been little change in the scale of wages paid by petitioner. The starting wage of operators has been cut from \$14.00 to \$12.00 per week. Some skilled employees were increased during 1921. A considerable saving has been effected by a decrease in the number of employees. A great saving has been effected by the increased efficiency of the labor. The cost of labor is more than 80 per cent. of petitioner's total operating cost out-

side of depreciation and taxes. Petitioner is not at this time contemplating further reduction in wages. Wages of telephone employees never were increased to the heights enjoyed by labor in other fields. The Commission has before it the scale of wages now paid by petitioner for all classes of its labor, including operators. It is not within the province of the Commission to suggest what wages shall be paid by a public utility. It is within the province of the Commission to state the fact that the wages paid by this utility to its employees at this time are reasonable and not excessive. There is no evidence that the number of employees is excessive. The evidence shows that a greater volume of business than in 1920 is being handled with a smaller total number of employees.

LABOR.

The largest single item of expense involved in the operation of petitioner's business is the wages of the telephone operators. The evidence shows the following with respect to the number of employees in the traffic department at Indianapolis on the dates indicated, practically all of whom are operators and supervisors:

May 8, 1920.....	1,003
November 27, 1920.....	1,344
March 5, 1921.....	1,111
November 30, 1921.....	1,222

The foregoing figures include the total of the traffic department in both the automatic and manual systems. It should be noted that while there has been an increase in the number of operators, the increase is very much less in proportion than the increase in the volume of business.

The statement following shows the number of skilled and unskilled employees of all kinds on the maintenance pay-rolls of petitioner at Indianapolis, as of October, 1920, and as of October, 1921, and the average wage paid at the times indicated:

	<i>October 1920</i>	<i>October 1921</i>
Number of skilled employees.....	241	253
Number of unskilled employees.....	59	52
Average wage, skilled employees.....	\$111 03	\$111 42
Average wage, unskilled employees.....	66 77	64 23

The evidence shows the following as to the total number of employees of the Indiana Bell Telephone Company for the State as a whole, and the average wage or salary. The figures include everybody from the president down:

Total Number of Employees, Both Male and Female:

November, 1920	4,691
November, 1921	4,360

Average Wage Per Month, All Male Employees:

November, 1920	\$128 75
November, 1921	130 90

Average Wage Per Month, All Female Employees:

November, 1920	62 62
November, 1921	64 59

Average Wage All Employees, Both Male and Female:

November, 1920	81 80
November, 1921	82 90

The unification will necessitate the employment of 42 more operators at an additional expense of \$36,000 a year.

The average total expense per month of the traffic department, including only the Indianapolis exchange area, has been as follows:

	<i>Per Month</i>
Last six months, 1920.....	\$118,699
First six months, 1921.....	105,279
Five months to November 30, 1921.....	109,194

The number of calls handled per month in 1921 was 10 per cent. greater than in 1920.

WESTERN ELECTRIC COMPANY'S PRICES.

Considerable has been heard about the fact that petitioner purchases its equipment and material from the Western Electric Company, the stock of which company is owned by the American Telephone and Telegraph Company. It is contended that the Indiana Bell Telephone Company pays excessive prices for the material, thereby increasing its operating expenses and enriching the American Telephone and Telegraph Company.

In the first place, the prices paid by the Indiana Bell Telephone Company to the Western Electric Company are no higher, and in many cases lower, than the prices of independent manufacturers for material and equipment of the same specifications. There is no evidence that the Western Electric Company is profiteering at the expense of the Indiana Bell Telephone Company. On the contrary, the evidence is that the Western Electric Company's prices are reasonable and that its profits are not excessive.

In the matter of the effect on rates of the prices paid for material, it should be borne in mind that of the total operating expenses of the Indiana Bell Telephone Company, exclusive of taxes and depreciation, less than 4 per cent. is the cost of material. In other words, of every \$100 of operating cost of telephone service, less than \$4.00 is the cost of material. The prices paid by the Indiana Bell Telephone Company to the Western Electric Company are pertinent, but relatively of little importance as affecting the rates.

It is true that the Indiana Bell Telephone Company, during the year 1921 purchased material and equipment from the Western Electric Company to the net amount of \$2,294,747.95 all but a very small part of that sum was charged not to operating expense but to capital account. That is to say, it did not add materially to the operating cost, but only added to the value of the property. The value of the property for rate-making purposes, including the property

lately added, will be fixed by the Commission in later proceedings, and the cost of such property will be but one of many elements taken into consideration in fixing the value.

This is not a matter of the public on one side and the utility on the other side. The owners of this utility are a part of the public and entitled to exactly the same consideration as any other citizen. A case such as this must be approached and considered entirely aside from prejudice or preconceived notions. Prejudice or half-baked opinions based on hearsay have no place in the orderly administration of the law.

FINANCIAL STATEMENTS.

A statement has been prepared by the accounting department of the Commission showing the income account of the Indianapolis exchange area, for the year 1921:

A summary of the statement would be as follows:

All revenues	\$3,143,768 52
All operating expenses.....	3,242,910 86
<hr/>	
OPERATING DEFICIT	\$99,142 34
Nothing for fixed charges.	
Nothing for dividends.	
Nothing for surplus.	

The statement is as follows:

INDIANA BELL TELEPHONE COMPANY — INDIANAPOLIS EXCHANGE AREA
INCOME ACCOUNT.

	* Estimated		
	Actual Ten	November and	Total
	Months Ended	December	(Estimated)
Operating Revenues:	October 31, 1921	1921	1921
Exchange service revenues..	\$2,258,273 48	\$451,654 69	\$2,709,928 17
Toll revenues, miscellaneous			
toll items	2,552 19	510 44	3,062 63
Toll revenues, message tolls.	273,983 29	54,796 66	328,779 95
Miscellaneous operating reve-			
nues	83,485 11	16,697 02	100,182 13
Non-operating revenues.....	1,513 03	302 61	1,815 64
TOTAL	\$2,619,807 10	\$523,961 42	\$3,143,768 52
Operating Expenses:			
Maintenance	\$500,164 80	\$100,032 96	\$600,197 76
Traffic	1,110,239 36	222,047 87	1,332,287 23
Commercial	285,754 83	57,150 97	342,905 80
General and miscellaneous..	131,867 66	26,373 53	158,241 19
TOTAL ABOVE ITEMS....	\$2,028,026 65	\$405,605 33	\$2,433,631 98
Taxes	189,757 93	37,951 58	227,709 51
Uncollectable operating reve-			
nue	16,193 38	3,238 68	19,432 06
Rents	25,777 34	5,155 47	30,932 81
Licensee revenue, Dr.† (aver-			
age 71,035 sets at \$1.08).	63,931 86	12,786 37	76,718 23
Depreciation, 5 per cent. on			
\$9,089,725.40 (average de-			
preciation of plant).....	378,738 56	75,747 71	454,486 27
TOTAL	\$2,702,425 72	\$540,485 14	\$3,242,910 86
BALANCE AVAILABLE FOR RE-			
TURN (DEFICIT)	\$82,618 62	\$16,523 72	\$99,142 34

* Estimated at one-fifth of the ten months ended October 31, 1921.

† The licensee revenue, Dr. if computed at $4\frac{1}{2}$ per cent. on those specific items of revenue to which it applies would amount to \$135,962.09 for the above estimated year 1921, (idle instruments in excess of 3 per cent. not considered).

The amount of message toll revenue credited to the Indianapolis exchange area is the amount of the computed cost of handling the toll business at Indianapolis plus the computed rental charge for toll trunks which connect the exchanges with the toll board. This method gives the Indianapolis exchange area a credit of \$273,983.29 for tolls for the ten months ended October 31, 1921, which was 43 per cent. of the total gross originating tolls at that exchange.

The computation of the cost of handling the toll business at this exchange was arrived at from actual studies of the various operations, and expenses incurred which are common to both exchange and toll business.

PROPERTY VALUE.

In the order * of February 9, 1920, the Commission tentatively estimated the whole value of the Indiana Bell Telephone Company's property in the Indianapolis exchange area to be \$6,409,657, and the value of the depreciable property to be \$5,443,610. The value found in the order * of February 9, 1920, plus the additions, at cost, to February 1, 1921, makes the total value used herein as a basis for computing the return and the depreciation.

The following statement more particularly describes the situation as to the investment in the property:

	<i>Depreciable Property</i>	<i>Whole Property</i>
Commission's tentative value, order *		
February 9, 1920.....	\$5,443,610 00	\$6,409,657 00
Net additions, February 1, 1920, to October 31, 1921:		
Unification costs	1,268,037 47	1,268,037 47
Other additions	1,165,292 26	1,214,432 92
Property purchased from Indianapolis Telephone Company, April 1, 1920..	2,482,626 00	2,632,250 00
Estimated net additions, November 1, 1921, to February 1, 1922.....	280,168 46	280,168 46
	<hr/>	<hr/>
	\$10,639,734 19	\$11,804,545 85

* See Commission Leaflet No. 100, p. 1234.

UNIFICATION.

The purchase price paid by the Indiana Bell Telephone Company for the property of the Indianapolis Telephone Company in the Indianapolis exchange area was \$2,632,250. The cost of unifying the two properties has been \$1,268,-037.47. The net additions have been \$179,257.65. The total cost incident to the purchase and unification amounts to \$4,079,545.12.

It is contended by respondents that the cost of the Indianapolis Telephone Company's property and the cost of unification was not justified, and that the expenditure of such sum for such purposes was unwise and extravagant and that the Commission should have prevented the purchase and sale and unification. It is contended that the Indiana Bell Telephone Company expended the sum of the cost of the purchased property and the unification, and for such expenditure gained nothing but about 8,000 stations. It further is contended that the investment in the automatic property is excessive; that the investment in the combined property is excessive; and that the cost of operating the combined property is excessive. None of these contentions are substantiated by the evidence.

The Indiana Bell Telephone Company had several reasons for proceeding as it did to purchase the property of the Indianapolis Telephone Company. The Federal Government insisted upon the unification of the two systems. This Commission encouraged the consolidation. Various civic bodies advocated it. The purchase was made and the unification has been completed. All Indianapolis telephone users will be on one system. Duplicate telephones will be unnecessary. The value of the service to each subscriber will be largely increased. The investment per station is unusually low. After unification the company will have surplus facilities sufficient to take care of 12,000 or 13,000 additional subscribers. Considering the present number of automatic subscribers and the number that can be served without additional equipment, it is evident that the cost of the purchased property and the cost

of unification has not been excessive or extravagant. The Indiana Bell Telephone Company's manual equipment has been used for several years to its maximum capacity. Enormous additions would have been necessary if the automatic property had not been acquired. It is estimated that the surplus automatic equipment will take care of the needs of Indianapolis for two years, and that it would have cost the Indiana Bell Telephone Company at least \$2,500,000 to have purchased on the open market and installed the same amount of equipment. The amount of surplus equipment now on hand is no more than good business prudence would suggest. Altogether, the purchase of the automatic property and the unification of the two systems seems to have been wise and economical business, of certain present and future benefit to the public.

DEPRECIATION.

It is suggested by respondents that petitioner should be directed to cease the setting aside of an allowance for depreciation. It is contended that thereby a saving of \$531,-986.71 would be effected. The sum just quoted is the amount of the annual depreciation allowance, which is 5 per cent. of the depreciable property as of February 1, 1922.

Section 22 of the Public Service Commission Act, which covers the subject of depreciation, is as follows:

"(22) Every public utility shall carry a proper and adequate depreciation account whenever the Commission after investigation shall determine that such depreciation account can be reasonably required. The Commission shall from time to time ascertain and determine what are the proper and adequate rates of depreciation of the several classes of property of each public utility. The rates shall be such as will provide the amounts required over and above the expense of maintenance to keep such property in a state of efficiency corresponding to the progress of the industry. Each public utility shall conform its depreciation accounts to such rates so ascertained and determined by the Commission. The Commission may make changes in such rates of depreciation from time to time as it may find necessary."

Pursuant to the foregoing statute, the Commission has fixed a rate of depreciation for the Indiana Bell Telephone Company of 5 per cent. The evidence in this case indicates that such an allowance is possibly insufficient. At least, it could not be considered excessive.

The question as to the reasonableness of an allowance for depreciation depends to a considerable extent upon the actual operation of the fund in the past. Experience shows that a public utility in the normal operation of its business should expend currently from 40 to 60 per cent. of the amount set up for depreciation. Expenditures charged to depreciation are designated "realized depreciation." In this case it is shown that petitioner's realized depreciation has amounted in the past to approximately 50 per cent. of the amount set aside. This fact tends to establish the reasonableness of the depreciation rate.

It should be remembered that if the Commission in this case reversed itself and allowed nothing for depreciation, the \$531,986 would not be saved and the company would be in no better financial condition. If there were no depreciation allowance and no reserve set up for that purpose, then all such charges would be included in maintenance, and as the depreciation fund or allowance is reduced the maintenance cost would be largely increased.

The Supreme Court of the United States, in discussing the question of depreciation, had the following to say:

"A water plant, with all its additions, begins to depreciate in value from the moment of its use. Before coming to the question of profit at all the company is entitled to earn a sufficient sum annually to provide not only for current repairs, but for making good the depreciation and replacing the parts of the property when they come to the end of their life. The company is not bound to see its property gradually waste, without making provision out of earnings for its replacement. It is entitled to see that from earnings the value of the property invested is kept unimpaired, so that, at the end of any given term of years, the original investment remains as it was at the beginning. It is not only the right of the company to make such a provision, but it is its duty to its bond and stockholders, and, in the case of a public service corporation, at least, its plain duty to the public. If a different course were pursued, the only method of providing for replacement of property which

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has ceased to be useful would be the investment of new capital and the issue of new bonds or stocks. This course would lead to a constantly increasing variance between present value and bond and stock capitalization — a tendency which would inevitably lead to disaster either to the stockholders or to the public, or both. If, however, a company fails to perform this plain duty and to exact sufficient returns to keep the investment unimpaired, whether this is the result of unwarranted dividends upon over-issues of securities, or of omission to exact proper prices for the output, the fault is its own. When, therefore, a public regulation of its prices comes under question, the true value of the property then employed for the purpose of earning a return cannot be enhanced by a consideration of the errors in management which have been committed in the past." (*Knoxville v. Knoxville Water Company*, 212 U. S. 13.)

TAXES.

One of the principal contributing causes of petitioner's present bad financial situation is the increased burden of its State and local taxes. In 1918 the taxes on the property of the Indiana Bell Telephone Company in the Indianapolis exchange area, exclusive of toll property, amounted to \$91,616.97. Three years later, in 1921, the taxes of the Indiana Bell Telephone Company on its property in the Indianapolis exchange area, exclusive of toll property amounted to \$227,709.52.

The effect of taxes on rates may be shown by the following comparative statement showing the taxes per subscriber at different periods for different companies:

	1918	1919	1920	1921
Central Union Telephone Company (Ohio Division)		1.34		
Central Union Telephone Company (Illinois Division)		1.11		1.83
Central Union Telephone Company (Indiana Division)	2.21	2.28	2.89	
Indiana Bell Telephone Company (entire company)			2.33	3.73
Indianapolis exchange area.....	1.63			2.99

TOLL CONTRACT.

A contract, copies of which are on file, exists between the Indiana Bell Telephone Company and the American Tele-

phone and Telegraph Company, covering the handling of the toll business. The terms of the contract, regarding the division of the toll revenue, are substantially that in the Indianapolis exchange area on all messages originating on Indiana Bell Telephone Company's lines 25 per cent. not exceeding 12 cents per message, is retained by the Indiana Bell Telephone Company. On all messages originating on Indiana Bell Telephone Company's lines outside of Indianapolis exchange area, the Indiana Bell Telephone Company retains 50 per cent., but not more than 30 cents per message. When a message originating on an Indiana Bell Telephone Company's line, destined to a point on an American Telephone and Telegraph Company's line, is carried a part of the way on Indiana Bell Telephone Company's toll lines, then the Indiana Bell Telephone Company receives and retains its pro rata share of the line mileage. The Indiana Bell Telephone Company, of course, retains all of the toll revenue for messages originating on its lines, carried over its lines and delivered by its exchanges. The Indiana Bell Telephone Company, by the contract above-mentioned, retains about 27 per cent. of all the toll revenue collected by it on messages originating on its lines destined to points necessitating the carrying of the message by the American Telephone and Telegraph Company. The Commission is familiar with the details of the toll business, and is familiar with the methods of conducting such business by the Indiana Bell Telephone Company and the American Telephone and Telegraph Company. There is no evidence showing or tending to show that the division of the toll revenue on business handled jointly by the Indiana Bell Telephone Company and the American Telephone and Telegraph Company, is not on a fair basis.

LICENSE CONTRACT.

A contract, copies of which are on file, exists between the Indiana Bell Telephone Company and the American

Telephone and Telegraph Company, commonly known as the license contract. By its terms, the American Telephone and Telegraph Company furnishes to the Indiana Bell Telephone Company all, or practically all, of the receivers, transmitters and induction coils required by the latter company in the operation of its business.

The American Telephone and Telegraph Company under the terms of the license contract, also furnishes to the Indiana Bell Telephone Company a variety of other services — the character and value of which need not be discussed in this order. The license contract provides that the Indiana Bell Telephone Company shall pay to the American Telephone and Telegraph Company approximately $4\frac{1}{2}$ per cent. of its gross revenues.

The Commission, in its order * of February 9, 1920, which order established the rates now in effect, disallowed the $4\frac{1}{2}$ per cent. as an operating expense — except for \$1.08 per station, which was the amount paid in 1918 and which was computed to be the fair rental value of the instruments furnished the Indiana Bell Telephone Company by the American Telephone and Telegraph Company.

In this case petitioner is asking that the Commission allow, as an operating expense, the same amount that was allowed in the former case.

RENTAL OF INSTRUMENTS.

If the American Telephone and Telegraph Company did not furnish the receivers, transmitters and induction coils, it would be necessary for the Indiana Bell Telephone Company to supply such equipment itself. A statement offered in evidence by petitioner shows the cost of such sets of instruments and the annual carrying charge thereon.

The exhibit referred to is as follows:

* See Commission Leaflet No. 100, p. 1234.

[Ind.]

First costs, set of instruments.....	\$5.30
Six per cent. stock to insure continuity of supply.....	.318
	<hr/>
	\$5.618
Annual cost per set:	
Eight per cent. return on investment.....	.449
Eight per cent. reserve for replacement.....	.449
One per cent. administration expense.....	.056
Two per cent. reserve for contingencies.....	.112
Repairs (based on average for country 1916-1917).....	.055
	<hr/>
TOTAL ANNUAL COST PER SET.....	\$1.121

Considering all the evidence in the case, including the foregoing exhibit, the Commission is of the opinion that the rental value of the sets of instruments is, at least, \$1.08 per set, per year, and an allowance as an operating expense of that amount will be made.

RELATIONSHIP OF AMERICAN TELEPHONE AND TELEGRAPH COMPANY AND INDIANA BELL TELEPHONE COMPANY.

This record is replete with statements from protestants to the effect that there is something fatally wrong in the relationship which petitioner company bears to the American Telephone and Telegraph Company and that the influence of that parent company on petitioner is so sinister and baleful as to injuriously affect the general public who are patrons of petitioner. The Commission, with respect to this matter, must deal with the facts as they exist and cannot speculate on the effect of certain situations which do not exist merely because the relationship affords an opportunity for such speculation.

The American Telephone and Telegraph Company owns all of the stock of petitioner, except 9 shares which are owned by the directors. The American Telephone and Telegraph Company besides owning the stock and securities of petitioner, owns the stock and securities of allied manufacturers and is engaged in the transmission of long distance messages. The total investment of this company is over \$1,000,000,000.

It receives revenue from the petitioning company (1) from dividends and interest on capital obligations if any are paid; (2) rental on equipment furnished; (3) a portion of the toll revenue on toll business handled over its own wires, and (4) indirectly from its investment in the Western Electric Company, which sells equipment and supplies to the local company and performs, under contract, some of its construction work.

With respect to dividends it is certain that the American Telephone and Telegraph Company has not in recent years received any dividends on stock owned in petitioner company or its predecessor companies. As to rental on equipment furnished it appears that petitioner is claiming as an operating expense for the Indianapolis exchange not more than the Commission has heretofore found reasonable, or \$1.08 for each telephone set. All the evidence points to the fact that this charge is fair and reasonable. However, petitioner has been adjusting this item with the American Telephone and Telegraph Company on the basis of the so-called 4½ per cent. contract. The total amount paid by petitioner to the American Telephone and Telegraph Company for 1921 on account of this item was \$316,090.65 for the State as a whole.

As to toll revenue, the record shows that such revenue is divided as between petitioner company, which originates the call, and the American Telephone and Telegraph Company, which transmits the message on the basis hereinabove described. The total amount paid by petitioner to the American Telephone and Telegraph Company for the State as a whole based on the first ten months was for 1921, \$585,537.90.

It appears that the total of the amounts paid the American Telephone and Telegraph Company for 1921 on the above basis on account of toll revenue and on account of rented equipment is \$901,628.55. There is in the record the annual report of the American Telephone and Telegraph Company made to this Commission for the year 1920. This report shows the gross and net revenue and income of

that company for the year covered by the report. It also shows the sources of such revenue and income. It is clear that if the payments of petitioner to the American Telephone and Telegraph Company for the year 1921 had been the same as for the year 1920 it would not have affected in the least the dividends paid by the latter company for that year nor could it have had any effect on the dividend rate of the American Telephone and Telegraph Company for the year 1921.

It seems clear that if the \$901,628.55 above stated had not been paid by petitioner to the American Telephone and Telegraph Company but had gone to increase the gross income of petitioner the rate of dividends paid in 1921 for the State as a whole would have been very slight if any had been paid at all. From all the evidence before the Commission it cannot be said that the payments made to the American Telephone and Telegraph Company by petitioner have been unreasonable or unfair, nor have they adversely affected the petitioning company.

The matter may be outlined in another fashion. The American company in 1921 had the following sources of revenue from its Indiana Bell company's business and interests and no other:

1. Revenue from its toll business.
2. Revenue under the license contract.
3. Revenue from dividends and profits on Western Electric Company's Indiana business.
4. Revenue from interest bearing obligations.
5. Revenue from dividends on stock of the Indiana Bell Telephone Company.
6. Miscellaneous revenue from the rental of certain properties, etc.

The records show the following with respect to the gross, or full amount of revenue, from each source received by the American company from its Indiana Bell company's business and interests during the year 1921:

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1. The gross amount of its toll revenue was.....	\$585,537 90
2. The gross amount of its revenue under the license contract was	316,090 65
3. Western Electric Company's business with the Indiana Bell company amounted to \$2,294,747.95, (unusually large, account of unification) on which a profit of 10 per cent. may be assumed amounting to.....	229,474 80
4. Interest due from Indiana Bell company on interest bearing obligations held by the American company (not paid in 1921 on account of no funds).....	797,616 06
5. Dividends on \$15,000,000 of Indiana Bell company's stock owned by the American company.....	Nothing
6. Revenue from rentals, etc.....	(\$28,009 70)
Negligible for the purposes of these calculations.	

The Illinois Bell Telephone Company operates a telephone system in Lake County and the Central Union Telephone Company of Illinois owns certain blocks of stock in certain small Indiana companies but these facts do not materially affect these calculations which concern the Indiana Bell Telephone Company.

At the outside, therefore, the American company received \$1,928,719.41 of gross revenue from its business and interests in Indiana in 1921. Out of such sum during the year 1921 it had to do the following things:

1. Pay all expenses of conducting its Indiana toll business as follows:
 - (a) Carry the investment in the toll property, which is assessed for taxation by the State tax board at \$6,200,000, and which undoubtedly represents a much greater investment, at 6 per cent. at least... \$372,000 00
 - (b) Taxes on the same property at least..... 100,000 00
 - (c) Depreciation on the same property at 5 per cent. at least 310,000 00
 - (d) Other operating expenses on the same property, including pay rolls and maintenance at least..... 300,000 00
2. Under the license contract the American company furnished to the Indiana Bell company 150,000 sets of telephone instruments, representing an investment of at least \$750,000. The annual cost of carrying such investment, including replacements and other expenses, would be at least..... 150,000 00

The cost of furnishing a variety of other services under the license contract, the cost or value of which is unknown.

3. The amount of revenue from Western Electric Company's business, above mentioned, is assumed to be net.
 4. The cost of carrying an investment of \$13,000,000 plus in Indiana Bell company's notes held by the American company (same as amount due — about 7 per cent.).. \$797,616 06
 5. The cost to the American company of carrying its investment of approximately \$15,000,000 in stock of the Indiana Bell company..... 900,000 00
- It therefore appears that the American company in 1921 had a total gross revenue from all its Indiana business and interests of not more than..... 1,928,719 41
- That the cost of conducting such business and carrying such interests was at least..... 2,929,616 06
- Leaving a deficit of at least..... 1,000,896 65

CREDIT OF INDIANA BELL TELEPHONE COMPANY.

Reference has been made to the fact that the Indiana Bell Telephone Company has been able to borrow money at the usual rates in spite of its bad financial showing. The Indiana Bell Telephone Company is owned by the American Telephone and Telegraph Company. It is an integral and vital part of the Bell System which covers the whole country. The American Telephone and Telegraph Company is in a position where it cannot abandon its own child. Its policy is to develop and operate a complete, nation-wide system of communication. It has made no money out of Indiana for at least ten years, through a combination of circumstances beyond the control of any man or group of men. It has kept adding to its investment in Indiana in order that its development here might keep pace with other states. The Indiana Bell Telephone Company's property, the American Telephone and Telegraph Company's toll property, and other Bell property in Indiana represents an actual investment of about \$35,000,000, only a part of which yields any interest. The opinion is prevalent that the Indiana Bell Telephone Company is being unfairly treated by the parent company, and that the Indiana subscribers are being unjustly gouged for the benefit of the parent company. The situation is obscured by the general preju-

dice against any corporation, by the prejudice against any corporation that pays dividends, by the prejudice against foreign corporations, by the suspicion of corporations which are closely connected, by the impression that the American Telephone and Telegraph Company is an octopus controlled by Wall Street, by the impression that its profits are excessive, by the calm disregard of the rights of the persons who have invested their savings in these properties, and by a determined stand that no matter what the loss of the Indiana Bell Telephone Company may be, such loss is being borne by people outside of the State and, therefore, does not matter.

There is no mystery about the Bell System, nor about the American Telephone and Telegraph Company, nor about the Western Electric Company, nor about the Indiana Bell Telephone Company, nor about the relationship of one of the corporations to another, nor about the contracts and business between the corporations. All these things are of record in this case, as they have been many times before. All these things have been repeatedly investigated and disclosed, and every possible phase has been minutely examined.

The fact is, that the American Telephone and Telegraph Company's business in Indiana is now and has been for many years conducted at an enormous actual loss. The fact is, that the American Telephone and Telegraph Company's business in Indiana is not paying the cost of doing the business. The fact is that the American Telephone and Telegraph Company is not getting enough revenue out of Indiana to meet anywhere near the expense of its operation in Indiana. The fact is that Indiana and one other state are being carried by the Bell System as a whole, and Indiana is in the worst shape, from a Bell standpoint. It is not a situation to be proud of. As elsewhere indicated, it is not the fault of the Commission or of the company or of the public, but has come about through a combination of circumstances that need not be discussed in this order. The welfare and prosperity of a \$35,000,000 Indiana property

and business, that intimately touches every citizen, is of vital concern, at least to everyone who owns property and pays taxes. Indiana should have the best telephone service in the country, and it should be the most inviting field for investors. The necessary money cannot be borrowed, and the service cannot be obtained indefinitely in the future unless the company's income is increased, either by an adjustment of rates or by greater economy of operation, or both. There can be no material improvement in the situation until there is a better understanding on the part of the company of the attitude of its patrons and the clearing away of the suspicions and prejudices that exist, and a dissipation of the fog that seems to surround the inter-corporate relationships.

RATES — TWO-PARTY RESIDENCE.

Petitioner must have more revenue. On the other hand a large number of its subscribers may feel unable or unwilling to pay an increased rate. Petitioner has 30,000 residence subscribers on two-party unlimited service. Any of such subscribers who feel unwilling or unable to pay the increased rate for that class of service, may select the two-party measured service at the same base rate they are now paying of \$2.25 per month. Petitioner asked for this class of service a rate of \$2.75 per month with a maximum of 60 calls and 4½ cents per call for all calls over 60. The rate provided herein is \$2.25 per month, with a maximum of 90 calls and 3 cents per call for all calls over 90. Any residence subscriber who desires to economize may take this service. Experience has shown that a large proportion of the residence subscribers do not use the telephone to the extent of 90 outgoing calls a month. Those who do use the service to a greater extent, or demand special services and facilities should pay more. This class of service at this rate is authorized in the belief that it will tend to equalize among the subscribers, the burden of carrying the cost of furnishing the service. Subscribers on individual residence unlimited service have the privilege of changing

to the two-party unlimited residence at 25 cents per month less than they are now paying. Either the individual or two-party residence unlimited subscribers have the privilege of changing to the two-party measured service.

RATES — BUSINESS.

The rates for business service are increased. The rates authorized are reasonable. It proves nothing to say that such rates are no higher than rates for the same service in other cities. It is established by this investigation that the business subscribers have not been paying the cost of furnishing the service to them, and it is doubtful if under the rates herein authorized, the business rates are high enough to pay the proportionate cost of rendering that class of service. A business man who has but a moderate use for the telephone, or who desires to economize, may select the two-party unlimited service at the same rate he is now paying for individual service or he may select the measured business service at \$2.00 per month less than he is now paying for individual unlimited service. The business man who now has both the automatic and manual telephones at a monthly rental of \$11.50 may discard one or the other and with the one remaining communicate with all the telephone patrons in the city at a rate of \$2.50 per month lower than he is now paying.

MEASURED SERVICE.

The schedule of rates now in effect provides measured business service for business subscribers who desire it. The schedule of proposed rates provides measured service for both business and residence subscribers. The Commission is confident that the establishment of measured service on the basis herein authorized is a step in the right direction. The measured service is provided for those subscribers who have comparatively little use for the telephone. It will give such subscribers the use of a telephone at a much lower rate than could otherwise be provided. The rate for measured residence service will take care of the

subscriber who desires to economize. The number of calls at the base rate will enable the smaller business man or householder to transact his business at a minimum cost. The telephone business gets the bulk of its revenue from its subscribers. The cost of furnishing the service should be charged against the subscribers as nearly as possible in accordance with the cost of furnishing the service to each subscriber. The principal cost of furnishing the service is the handling of the calls. Under the present arrangement, one subscriber may have 50 calls a day and his neighbor may have two calls per day. Obviously, it is unfair to require the subscriber who has but two calls a day to help pay the cost of handling the 50 calls for his neighbor. The measured service plan is a step toward eliminating that unfair condition.

RATE OF RETURN.

Petitioner should be permitted to earn a reasonable return on the value of its property. A reasonable return, under the conditions that exist today, is not less than 7 per cent. Most courts and commissions hold that 8 per cent. is a reasonable return. Courts from the Supreme Court of the United States down have repeatedly held that a refusal to permit a public utility to earn a reasonable return is confiscation of its property directly contrary to the Constitution of the United States. The theory of the Public Service Commission Law is that service shall be rendered at cost. The cost of rendering service consists of (1) the operating expense, including depreciation and taxes; (2) the cost of the money representing the value of the property. Public utilities are not built out of earnings. They are built out of borrowed money. Additions and betterments required to meet the demands of the public for service are not paid for out of earnings. They are paid for out of borrowed money. No money can be borrowed by a public utility for additions unless it can show proper earnings on the money already invested. The peculiar position of the Indiana Bell Telephone Company in this respect is discussed elsewhere. This Commission

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recognizes that the Indiana Bell Telephone Company should be permitted to earn a reasonable return on the value of its property for the following reasons:

- (1) It is the law.
- (2) It is right and just.
- (3) Service otherwise cannot be maintained.
- (4) Extensions, additions and improvements otherwise cannot be made.

It is stated by certain respondents that times are now bad; that business generally is suffering; that many men are out of work; and that many persons must economize, all of which is true. It is further stated that public utilities had their rates increased during the war and thereby built up large surpluses; that the cost of furnishing public utility service is being reduced in the same proportion as the reductions in other lines; that great reductions should be and can be made in salaries and wages, none of which is true. It is contended that because other business is slack and suffering loss, public utilities should likewise be forced to forego all earnings on their investment, and in this particular case it is strenuously contended that this utility should be required to continue to operate at an actual daily loss. All these curious arguments overlook the important fact that the public utility business is radically different from any other.

Public utility business is regulated, and other business is not. During the three years ending with 1920 almost every unregulated business of every kind and character was enjoying unheard of profits of anywhere from 25 per cent. up to 100 and 200 per cent. During the same period the public utilities of Indiana managed to keep operating and that is all. Out of the 1,200 or more in Indiana, perhaps 15 or 20 made as much as 6 or 7 per cent. The remainder were lucky if they met their pay rolls and coal bills. In spite of these facts, it is seriously contended that because some other business is down, the public utilities should likewise be made miserable.

There is another important difference between the public utility business and private unregulated business. In time

of adversity, or in hard times like the present, the private business ceases to borrow money, immediately cuts down expenses by discharging men, by cutting wages, by refusing to buy unless the price is satisfactory, and, if necessary, it reduces its output or closes up shop and waits for more prosperous times. The public utility can do none of these things. It must continue to operate at full blast, regardless of the nature of the times. It must continue to borrow money at excessive rates. It must continue to buy the materials and supplies required. It must retain its full force of employees, and increase the force as the demands for its service increase. It cannot reduce salaries and wages to the same extent as private business, for its salaries and wages never were increased to anything like the heights of private business. If trained employees were discharged, if inexperienced, cheap labor were employed, if the necessary materials and supplies were not on hand, if money were not borrowed to make the required additions and extensions, the service immediately would suffer and the patrons would be the first bitterly to complain.

The Supreme Court of the United States has had the following to say concerning the proposal to deny to a public utility a reasonable return upon the capital invested in it:

"Our social system rests largely upon the sanctity of private property, and that state or community which seeks to invade it will soon discover the error in the disaster which follows. The slight gain to the consumer, which he would obtain from a reduction in the rates charged by the public service corporations, is as nothing compared with his share in the ruin which would be brought about by denying to private property its just reward, thus unsettling values and destroying confidences." (212 U. S. 1, at page 18.)

Petitioner in this case is in the business of selling telephone service. It cannot fix the price of the thing it sells at a figure that will yield to it the cost of production and a fair profit, and it cannot indefinitely continue to operate at a loss. Neither can it cease to operate, nor in any wise curtail its business. Consequently, it must appear before

the body created by law to ask for relief. The petitioner in this case is entitled to an increase in rates. The evidence is perfectly plain. There is no mystery about any phase of the business. Every important fact has been established, not only by petitioner's evidence but also by the independent investigation of the agents of the State. Petitioner in this case is entitled to sufficient revenue to meet its operating expense and pay at least 7 per cent. return on the value of its property.

Nevertheless, the Commission will not authorize the schedule of rates proposed by petitioner. The rates herein-after authorized, on the basis of operation for the first ten months of 1921 will yield to petitioner not to exceed 2.9 per cent.

The schedule authorized will result in an increase of revenue of \$440,000.

Conceding and affirming that petitioner is entitled to at least a 7 per cent. return, the Commission will not authorize the proposed rates and thereby theoretically give petitioner immediately a 7 per cent. return, for several reasons, among which are the following:

(1) On May 28, 1920, petitioner petitioned for rates higher than those now requested. There was a hearing and it developed that petitioner's service had degenerated. Its relations with the public were bad. The service was such that adequate rates were not justified. The case was dismissed. Business and labor were prospering. Then was the proper time for a revision of the rates. Petitioner is now suffering the consequences of its own unwise policies and mismanagement, which are now fortunately long since changed.

(2) The Commission is of the opinion that the traffic will not bear the increase proposed, and that authorization of the proposed rates inevitably will result in so large a number of subscribers discontinuing their service through inability to pay, that the proposed rates will not yield the revenue theoretically computed.

(3) That any considerable loss of subscribers will adversely affect the service of those who remain, hamper the development of the city, and in the long run injuriously affect petitioner's property.

(4) The evidence indicates that petitioner's revenue will be largely increased during the next two years in the normal development of its business by the taking on of some 12,000 additional subscribers who can be served with the equipment and facilities now in place, and that the

addition of subscribers from 60 per cent. up to the usual 70 per cent. of plant capacity will not result in a corresponding increase of operating expenses, as usually would be the case.

(5) The evidence is not clear, but the Commission is of the opinion that the work of unification has to some extent increased operating expenses.

(6) There is evidence to the effect that some deferred maintenance may have been included in the maintenance account during the first ten months of 1921.

(7) The Commission's audit indicates that certain economies may be effected in petitioner's business by a reduction of overhead expense, especially in the plant and auditing departments.

(8) The amount of revenue that will be derived from the excess messages under the measured service is uncertain.

(9) Various rates included in the proposed schedule are not believed to be just and reasonable.

The Public Service Commission of Indiana holds no brief for the Indiana Bell Telephone Company or any other public utility. There is no state in the United States where the public utilities have been so severely and rigidly regulated. There is no state in the United States where public utility values have been on a lower basis. There is no state in the United States where the rate of return allowed public utilities has been lower than in Indiana. There is no state in the United States where the rate of depreciation has been on a lower basis. There is no state in the United States where public utility rates generally have been kept as low as in Indiana. There is no city in the United States of a size comparable to Indianapolis where the public utility rates have been or are now as low as at Indianapolis.

The Commission being advised in the premises finds:

(1) That an emergency exists, which threatens injury to the business and interests of petitioner;

(2) That the rates now in effect are unjust and unreasonable; and if not changed will result in unlawful discriminations;

(3) That the rates proposed in the petition are unjust and unreasonable;

(4) That the rates now in effect should be increased in order to prevent further injury to the business and interests of petitioner:

(5) That the rates hereinafter authorized are just and reasonable and should be authorized, effective February 1, 1922, if unification is then complete.

It is ordered by the Public Service Commission of Indiana, That the Indiana Bell Telephone Company be, and it is, authorized and directed to charge and collect until the further order of the Commission the following schedule of rates, effective February 1, 1922, or at such later date as the work of unification of the telephone service now in process be completed:

<i>Class of Service:</i>	<i>Rate</i>
<i>Business, Unlimited:</i>	<i>Per Month</i>
Individual line	\$9 00
Two-party line	7 00
Extension station	1 50
Joint user	2 00
<i>Business, Measured:</i>	
Individual line (120 messages per month).....	5 00
Extension	75
Additional messages, 3 cents each.	
Joint user	75
<i>Business, Coin Collector:</i>	
Individual line (guarantee 5 messages per day).....	7 50
Additional messages, 5 cents each.	
<i>Residence, Unlimited:</i>	
Individual line	3 75
Two-party line	2 75
Extension station	1 00
<i>Residence, Measured:</i>	
Two-party line (90 messages per month).....	2 25
Extensions	75
Additional messages, 3 cents each.	
<i>Suburban, Unlimited:</i>	
Business	4 25
Residence	3 00
<i>Rural, Unlimited:</i>	
Business	3 25
Residence	2 25

Private Branch Exchange, Business, Unlimited:

Rate

Cord Switchboard:

Per Month

Minimum equipment (switchboard not exceeding 30 jacks, operator's set, 2 trunks and 2 stations).	
Cord boards, each.....	\$4 00
Trunks, each	13 50
Stations, without dials.....	1 50
Stations, with dials.....	1 75
Additional jacks, per strip of 10.....	75

Cordless Switchboards:

Minimum equipment (switchboard, operator's set, 1 trunk and 2 stations).	
Cordless boards, each.....	3 00
Trunks, each	13 50
Stations, without dials.....	1 50
Stations, with dials.....	1 75

Intercommunicating, Unlimited:

Minimum equipment (1 trunk and 4 stations).	
Stations with switching device, without dials *.....	2 25
Stations with switching device, with dials *.....	2 50
Trunks, each	13 50
Additional units of cable.....	25

*Private Branch Exchange, Business, Measured:**Cord Switchboard:*

Minimum equipment charge (switchboard not exceeding 30 jacks, operator's set, 2 trunks and 500 messages).	
Cord boards, each.....	4 00
First trunk (250 messages).....	8 00
Additional trunks	2 00
Additional jacks, per strip of 10.....	75
Stations, without dials	1 00
Stations, with dials.....	1 25
Additional messages, 3 cents each.	

Cordless Switchboard:

Minimum equipment charge (switchboard, operator's set, 2 trunks and 500 messages).	
Cordless boards, each.....	3 00
First trunk (250 messages).....	8 00
Additional trunks	2 00
Stations, without dials	1 00
Stations, with dials.....	1 25
Additional messages, 3 cents each.	

* Not exceeding 30 ft. of cable per station.

	<i>Rate</i> <i>Per Month</i>
<i>Intercommunicating, Measured:</i>	
Minimum equipment (1 trunk and 4 stations and 500 messages).	
Trunks (250 messages)	\$8 00
Additional trunks	2 00
Stations with switching device, without dials *.....	1 50
Stations with switching device, with dials *.....	1 75
Additional messages, 3 cents each.	
<i>Private Branch Exchange, Hotel, Measured:</i>	
Minimum equipment (switchboard not exceeding 30 jacks, operator's set, and 15 stations).	
Cord boards, each.....	4 00
Stations	75
Messages, 3 cents each.	
<i>Private Branch Exchange, Machine Switching Equipment, Unlimited:</i>	
Boards	4 00
Stations	1 75
Trunks	13 50
Connectors	2 00
Selectors	1 50
Tie lines	3 00
Attendant dial trunks.....	75
Power plant equipment.....	25 00
<i>Extra Mileage:</i>	
Individual flat and measured rate service, per quarter mile or fraction thereof (business or residence).....	50
Two-party flat and measured rate service, per quarter mile or fraction thereof for each subscriber (business or residence)	31½
Two-party service beyond the exchange radius will be furnished only when two parties are actually connected at the two-party rate for the entire radius.	
An annual charge of \$7.50 for each quarter mile or fraction thereof will be made for circuits furnished by the company to connect telephone extensions or P. B. X. stations in different premises.	
An annual charge of \$6.00 for each quarter mile or fraction thereof will be made in addition to the exchange rates for each P. B. X. trunk extended beyond the exchange radius.	

* Not exceeding 30 ft. of cable per station.

It is ordered, That the foregoing schedule of rates, together with rules heretofore or hereafter filed in connection therewith, be applied to all subscribers of petitioner of every kind and character alike, without discrimination, and that any order by the Commission heretofore issued or any rate or rule heretofore filed and accepted by the Commission in conflict with this order be, and it is hereby, rescinded, set aside and vacated.

It is ordered, That petitioner file, subject to the approval of the Commission, such modification and amendments to its rules and regulations as may be indicated or required by the changed operating conditions incident to unification.

It is ordered, That on or before February 1, 1922, the Indiana Bell Telephone Company shall file with the tariff department of this Commission, and shall post and keep posted in its office in full view of the public during the entire period such schedule is in effect, a printed or typewritten copy of such schedule of rates, as required by Sections 41-47 of the Public Service Commission Act.

It is ordered, That within twenty days from the receipt of this order, the Indiana Bell Telephone Company shall pay to the Treasurer of State, through the secretary of this Commission, the sum of \$1,017.72, expenses incurred by the Commission in the investigation of this cause, as required by Section 74 of the Public Service Commission Act.

January 26, 1922.

KANSAS.

Public Utilities Commission.

In re APPLICATION OF THE UNITED TELEPHONE COMPANY FOR
PERMISSION TO DISCONTINUE FURTHER TOLL LINE SERVICE
OVER ITS LINES TO THE SWITCHBOARD OF THE HERING-
TON COOPERATIVE TELEPHONE EXCHANGE.

Docket No. 4074.

Decided February 1, 1922.

**Application to Discontinue Toll Service Denied — Toll Service Discon-
tinued without Consent of the Commission Ordered Reestablished.**

ORDER.

Now on this first day of February, 1922, this cause came on to be heard by the Public Utilities Commission for the State of Kansas, Commissioner H. A. Russell sitting; and the Commission, having heard the evidence of parties introduced herein and the arguments of attorneys, and after full and complete investigation of the facts and being fully advised in the premises, finds:

That there are located in the city of Herington two telephone exchanges, to-wit, the United Telephone Company and the Herington Cooperative Telephone Exchange; that for many years prior hereto the United Telephone Company has been furnishing toll service to the patrons of the Herington Cooperative Telephone Exchange over its toll lines through the switchboard of the Herington Cooperative Telephone Exchange.

The Commission further finds that the furnishing of said telephone service is a long and well established practice, and has become by its long continued operation a public convenience and necessity to the patrons of the Herington Cooperative Telephone Exchange, and by so furnishing said toll service in past years the United Telephone Company has subjected its property to the use of the sub-

scribers of the Herington Cooperative Telephone Exchange to this extent.

The Commission further finds that public convenience and necessity demand that the United Telephone Company be compelled to continue to furnish the said toll service in accordance with said well established practice.

The Commission further finds that for some months prior hereto the United Telephone Company has ceased and failed, and now utterly neglects and fails to furnish the said toll service to the patrons of the Herington Cooperative Telephone Exchange over the switchboard of the Herington Cooperative Telephone Exchange, and notwithstanding the fact that no permission has ever been granted by the Public Utilities Commission of Kansas to so discontinue and abolish said well established practice.

It is, therefore, by the Commission ordered, That the United Telephone Company be denied its application to discontinue the said toll service over its lines and through the switchboard of the Herington Cooperative Telephone Exchange.

It is further ordered, That said United Telephone Company be directed forthwith to reestablish and reinstate the said long distance service over its lines and through the switchboard of the Herington Cooperative Telephone Exchange.

February 1, 1922.

FINAL ORDER.

Decided February 20, 1922.

Now on this twentieth day of February, 1922, this case comes on for final order by the Commission, and the Commission having had a hearing therein and being fully advised in the premises, finds that the Herington Cooperative Telephone Exchange is a corporation engaged in furnishing telephone service to the citizens of Herington, Kansas, and vicinity, and is without any toll connections whatsoever, except, through the switchboard of the United Telephone Company, and that the United Telephone Com-

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pany is a corporation engaged in furnishing telephone service to the citizens of various and diverse cities in the State of Kansas, but more especially the citizens of Herington, Kansas, and is also engaged in doing a general toll business over toll lines owned by it throughout the State of Kansas.

The Commission further finds that for many years prior to the filing of application herein, the United Telephone Company had been furnishing toll service to the patrons of the Herington Cooperative Telephone Exchange over the switchboard of the said United Telephone Company at Herington, Kansas, and the trunk lines of the United Telephone Company leading therefrom by means of a trunk line connecting the two telephone exchanges in Herington, Kansas.

The Commission further finds that the said toll service which the United Telephone Company has been furnishing, as above set out, has become a public necessity and convenience to the patrons of the Herington Cooperative Telephone Exchange, and that by furnishing said service, the United Telephone Company has impressed its property with a public use.

The Commission further finds that it is a public use and necessity that the United Telephone Company continue to furnish the said toll service.

The Commission further finds that for some time prior to the filing of the complaint herein, the said United Telephone Company had ceased to furnish the said long distance service, even though no permission so to do had been granted by this Commission.

It is, therefore, by the Commission ordered, That the said United Telephone Company be directed forthwith to restore and reinstate the said long distance telephone service which it has been furnishing the patrons of the Herington Cooperative Telephone Exchange by means of a trunk line between its switchboard and the switchboard of the Herington Cooperative Telephone Exchange. and that it observe equal care and diligence in completing the calls which are put in by the patrons of the Herington Cooperative Telephone Exchange as those that are put in by

patrons of its own lines, and that equal diligence be observed in completing the calls which originate on the lines of the Herington Cooperative Telephone Exchange with that observed as to calls originating on its own lines.

February 20, 1922.

In re APPLICATION OF THE HERINGTON COOPERATIVE TELEPHONE EXCHANGE FOR PERMISSION TO INCREASE RATES.

Docket No. 4486.

Decided February 1, 1922.

Increase in Rates Authorized.

ORDER.

This matter came on for hearing before the Public Utilities Commission of the State of Kansas, H. A. Russell sitting, in Herington, Kansas, on February 1, 1922.

Now on this first day of February, 1922, this matter comes on for final consideration and order; and the Commission, having heard the evidence introduced and after full and complete investigation, and being fully advised in the premises, finds that the present rates for telephone service being furnished by the Herington Cooperative Telephone Exchange at Herington, Kansas, are inadequate and non-compensatory. The Commission further finds that the following is a fair and reasonable schedule of rates to be charged for telephone service at Herington, Kansas:

	<i>Per Month</i>
Individual line, business telephone.....	\$2 25
Individual line, business telephone (subscriber-owned instrument)	2 00
Individual line, residence telephone.....	1 25
Four-party line, residence telephone.....	1 00
Individual line, residence telephone (subscriber-owned instrument)	1 00
Extension sets, extra, business.....	1 00
Extension sets, extra, residence.....	50
Desk sets, extra, business and residence.....	25
Rural switching service.....	50

In re THE HERINGTON COOPERATIVE TELEPHONE EX. 991
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It is, therefore, by the Commission ordered, That the Herington Cooperative Telephone Exchange be, and it is hereby, authorized to file and put in effect February 1, 1922, a schedule of rates for telephone service at its Herington, Kansas, exchange, as follows:

	<i>Per Month</i>
Individual line, business telephone.....	\$2 25
Individual line, business telephone (subscriber-owned instrument)	2 00
Individual line, residence telephone.....	1 25
Four-party line, residence telephone.....	1 00
Individual line, residence telephone (subscriber-owned instrument)	1 00
Extension sets, extra, business.....	1 00
Extension sets, extra, residence.....	50
Desk sets, extra, business and residence.....	25
Rural switching service.....	50

February 1, 1922.

MICHIGAN.

Public Utilities Commission.

In re APPLICATION OF THE LENAWEE COUNTY TELEPHONE
COMPANY FOR LEAVE TO INCREASE ITS RATES, RENTALS,
TOLLS AND CHARGES AT ITS SEVERAL EXCHANGES.

T-91.

Decided January 12, 1922.

Rates as Applied for not Justified — Increase in Rates Authorized.

ORDER.

The above-named telephone company having heretofore applied to this Commission for an increase in its rates, rentals, tolls and charges charged to and collected from its subscribers at its several exchanges in Adrian, Hudson, Clinton and Palmyra, and the same having been brought on to be heard, and it appearing,

(a) That said applicant gave due notice of its intention to apply to this Commission for an increase in such rates, rentals, tolls and charges to all persons interested by publication of notice, which said notice contained the rates, rentals and charges proposed to be applied for, in the Adrian Telegram, a newspaper of general circulation in the territory served by the telephone lines and facilities of said applicant, and it further appearing,

(b) That due notice of the order of hearing was served upon the mayor of Adrian, mayor of Hudson, the president of the village of Clinton, and the supervisors of the townships of Palmyra, Clinton, Adrian, Madison and Hudson, in Lenawee County.

(c) And it further appearing that an inventory and appraisal of all of the property of said applicant has been made by the engineering department of this Commission, and an audit of the books of said telephone company has been made by the auditors of this Commission, and that

an inspection of its service has been made by a telephone inspector employed by this Commission.

(d) And after hearing the testimony in support of the application, the report of the engineers and auditors, and of the telephone inspector as to service, it appears to this Commission that the rates, rentals and charges applied for are not under present conditions justified for the character of the telephone service rendered, but the rates herein are justified.

Therefore, it is hereby ordered by the Michigan Public Utilities Commission,

(1) That effective 12:01 A. M. February 1, 1922, said Lenawee County Telephone Company be, and it is hereby, authorized and empowered to charge to and collect from its subscribers served at and through its several exchanges, the following rates, rentals and charges, that is to say:

ADRIAN EXCHANGE.

Per Month

Business telephone, one-party.....	\$3 45
Business telephone, two-party.....	2 88
Business telephone, one-way.....	1 75
Residence telephone, one-party.....	1 75
Residence telephone, two-party.....	1 45
Residence telephone, four-party.....	1 15
Business extension telephone.....	65
Private branch exchange trunk.....	3 45
Lodges, churches, clubs and others using telephone part time.	1 75
Rural residence telephone, code ringing.....	1 45
Rural business telephone, code ringing.....	1 75
Rural telephone, selective ringing.....	1 65
Rural telephone, common battery.....	1 65

HUDSON EXCHANGE.

Business telephone, one-party.....	2 30
Extension telephone	65
Residence telephone, one-party.....	1 45
Residence telephone, four-party.....	1 25
Rural telephone, common battery.....	1 50
Rural telephone, magneto service.....	1 45

CLINTON EXCHANGE.

	<i>Per Month</i>
Business telephone, one-party.....	\$1 75
Residence telephone, one-party.....	1 45
Residence telephone, two-party.....	1 15
Rural residence telephone.....	1 45
Switching roadway telephone.....	50
Switching roadway telephone when instrument is owned by company	75

In case Palmyra exchange is not discontinued, the price per month of all telephones shall be \$1.25.

(2) The cost and expense of the inventory and appraisal of the property of said telephone company, and the audit of its books made under the direction of this Commission shall be set up upon the books of said applicant and amortized, paid and charged off in five equal annual payments.

(3) The rates, rentals and charges above authorized are to be payable at the same time and in the same manner as the rates, rentals and charges now in force are due and payable.

(4) Said telephone company is hereby directed, with all convenient speed, to make any and all repairs and replacements in outside plant that shall or may be necessary to enable it to render first-class telephone service and to make any and all repairs and improvements in central office equipment at its several exchanges, and any and all necessary changes and improvements in operation which shall or may be necessary to enable it to render first-class telephone service.

(5) Said telephone company is hereby directed to set aside annually, for depreciation reserve, an amount equal to 5 per cent. of the total value of all its property, plus additions and betterments properly chargeable to capital account that shall be made after the date of this order.

(6) Applicant shall, as soon as the improvements in plant and service above directed to be made are made, make and file a written statement setting up the facts in relation thereto with this Commission.

(7) If applicant's plant, equipment and service is not repaired and improved within a reasonable time after the making of this order, the Commission reserves the right to reduce its telephone rates, rentals and charges so that the same shall be commensurate with the service rendered, it being the intention of the Commission to hold the telephone rates, rentals and charges of applicant down as low as is consistent with the company's earnings, operating expenses, normal maintenance and repairs, taxes, depreciation, and a return commensurate with the service rendered and to increase within reasonable limits the rate of return allowed to the telephone company in accordance with the improvements made in telephone service.

(8) When said deferred maintenance of outside plant has been cared for and the character of the service rendered the public has been improved so as to justify increased rates, a further hearing may be had.

(9) Upon receipt of a certified copy of this order applicant shall file with the Commission a schedule of all its rates, rentals and charges and practices now in force, and shall have and keep the same on file in its principal office and place of business at each of its said several exchanges.

(10) The rates, rentals and charges herein authorized are based upon the rendition of reasonably adequate telephone service, and if said applicant shall at any time neglect, fail or refuse to render reasonably adequate telephone service, the Commission reserves the right to reduce its rates, rentals and charges, either with or without notice.

January 12, 1922.

In re JOINT APPLICATION OF THE VALLEY HOME TELEPHONE COMPANY AND THE MICHIGAN STATE TELEPHONE COMPANY, THE ONE TO SELL AND THE OTHER TO BUY THE PROPERTY AND ASSETS OF THE VALLEY HOME TELEPHONE COMPANY.

T-375.

In re APPLICATION OF THE MICHIGAN STATE TELEPHONE COMPANY FOR LEAVE TO INCREASE ITS RATES, RENTALS AND CHARGES AT ALL EXCHANGES TO BE ACQUIRED BY IT FROM THE VALLEY HOME TELEPHONE COMPANY.

T-375.

In re APPLICATION OF THE VALLEY HOME TELEPHONE COMPANY FOR AUTHORITY TO DISCONTINUE ITS TELEPHONE BUSINESS AND ABANDON AND DISMANTLE ITS EXCHANGE AT FLINT, MICHIGAN.

T-377.

In re APPLICATION OF THE MERCHANTS ASSOCIATION OF FRANKENMUTH FOR PHYSICAL CONNECTION BETWEEN THE EXCHANGES OF THE VALLEY HOME TELEPHONE COMPANY AND THE MICHIGAN STATE TELEPHONE COMPANY AT FRANKENMUTH, AND FOR THE INTERCHANGE OF LOCAL AND LONG DISTANCE TELEPHONE SERVICE.

T-353.

In re APPLICATION OF THE CITY OF SAGINAW, A MUNICIPAL CORPORATION, IN ITS OWN BEHALF AND FOR AND IN BEHALF OF THE SAGINAW BOARD OF COMMERCE *et al.* FOR PHYSICAL CONNECTION AND INTERCHANGE OF LOCAL AND LONG DISTANCE TELEPHONE SERVICE BETWEEN THE VALLEY HOME TELEPHONE COMPANY AND THE MICHIGAN STATE TELEPHONE COMPANY AT SAGINAW.

T-247.

In re APPLICATION OF THE CITY OF BAY CITY *et al.* FOR
PHYSICAL CONNECTION AND INTERCHANGE OF LOCAL AND
LONG DISTANCE TELEPHONE SERVICE IN BAY CITY.

T-258.

Decided January 14, 1922.

**Sale and Purchase of Property Authorized — Consolidation of Prop-
erties Ordered — Applications for Physical Connection to be Dis-
missed upon Sale and Purchase and Consolidation of Prop-
erties — Present Rates and Charges of Each Company to
Continue During Period of Consolidation — Rates
Fixed to Become Effective after Consolidation.**

Joint application was filed by the Valley Home Telephone Company and the Michigan State Telephone Company for authority for the Valley Home company to sell, and the Michigan State Telephone Company to purchase the facilities and property of the Valley Home company. Application was also filed by the Merchants Association of Frankenmuth for physical connection between the exchanges of the Valley Home company and the Michigan State company at Frankenmuth, and by the city of Saginaw *et al.* for physical connection between the Valley Home company and the Michigan company at Saginaw, and by the city of Bay City *et al.* for physical connection and interchange of local and long distance service in Bay City.

On August 26, 1921, an order* was entered fixing the value of the property of the Valley Home Telephone Company at \$1,250,000.

The Commission found that the proposed sale of property by the Valley Home company and the purchase thereof by the Michigan State company would be in the interest of public convenience and necessity, and that the property proposed to be sold and purchased was reasonably worth the price of \$1,250,000 agreed to be paid therefor.

Held: That the sale by the Valley Home Telephone Company of its property as specified in a contract filed with the Commission to the Michigan State Telephone Company for the consideration of \$1,250,000 should be approved;

That the Michigan State Telephone Company should proceed, after purchasing and acquiring the property of the Valley Home company, with all convenient speed, to consolidate the exchanges and property of the Valley Home company and the Michigan State company in the cities of Bay City and Saginaw and the village of Frankenmuth, so as to eliminate duplication of telephone service, and to furnish service to all subscribers of either of said telephone companies involved in the sale, purchase and consolidation;

* See Commission Leaflet No. 119, p. 1101.

That upon the sale, purchase and consolidation of said properties, the applications of the city of Bay City, the city of Saginaw, and the Merchants Association of Frankenmuth for physical connection between the exchanges of the Valley Home company and the Michigan State company should be dismissed;

That the rates, rentals and charges now in force in the several telephone exchanges of the Valley Home company and the Michigan State company which are involved in the consolidation, shall continue as at the present time until the properties acquired by the Michigan State company shall have been consolidated, and upon the completion of such consolidation, the rates, rentals and charges of the Michigan State company in its several exchanges, acquired from the Valley Home company, shall be grouped for rate-making purposes and rates applied to each group as set out at length in the order herein entered.

OPINION AND ORDER.

Joint application having been made by the Valley Home Telephone Company, a Michigan corporation, and the Michigan State Telephone Company, a Michigan corporation, the one to sell and the other to buy, the telephone lines, facilities and property of the Valley Home Telephone Company hereinafter more particularly described, and this Commission having heretofore caused an inventory and appraisal of all of the property of the Valley Home Telephone Company to be made, as well as an audit of its books and the same having been submitted to the Commission; and a hearing heretofore having been had upon the valuation of the property of the Valley Home Telephone Company;

And the Commission having heretofore, on August 26, 1921, made an order* fixing the value of all of the property of the Valley Home Telephone Company, including its physical property, cash on hand, working capital, intangible assets, accounts receivable, and all other property and assets belonging to it at \$1,250,000 (File D-552);

And the said Valley Home Telephone Company having heretofore entered into a contract in writing with the Michigan State Telephone Company, a copy of which said contract is annexed hereto, marked Exhibit A, and made

* See Commission Leaflet No. 119, p. 1101.

a part hereof, providing, subject to certain conditions specified therein, for the sale by the Valley Home Telephone Company, and purchase by the Michigan State Telephone Company, of all of the assets of the Valley Home Telephone Company;

And due notice having been heretofore given by the Michigan State Telephone Company of its intention to apply for an increase in the rates, rentals, tolls, and charges for telephone service in the several exchanges involved in said sale and purchase; by publication of said notice, which said notice contained the increased rates, rentals and charges proposed to be applied for, in the Saginaw News Courier, Bay City Times Tribune, and the Frankenmuth News, newspapers in general circulation in the territory now served by the Valley Home Telephone Company, and which will be served by the telephone lines and facilities of the Michigan State Telephone Company in case said sale and purchase is made and approved;

And application having been heretofore made by said Valley Home Telephone Company for leave to discontinue its telephone exchange at Flint, Michigan;

And application having been heretofore made for physical connection of the telephone lines and facilities of the said Valley Home Telephone Company and the Michigan State Telephone Company, in Saginaw, Bay City, Frankenmuth and Flint;

And said Valley Home Telephone Company having appeared at the hearing hereon by *A. H. McMillan*, its attorney, *John Leidlein*, its president, and *Roy F. Mapes*, its general manager; and the Michigan State Telephone Company having appeared by *Thomas G. Long*, its attorney, *George M. Welch*, its general manager, and *Lou Burt*, its commercial engineer; and the Moore Telephone System, a connecting telephone company, having appeared by *W. J. Moore*, its president and general manager; and the Davidson Telephone Company, a connecting telephone company, having appeared by *L. Gifford*, its president and general manager; and the Michigan Independent Telephone and

Traffic Association, interested in telephone toll line connections and service, having appeared by *R. A. Vivian*, its manager; and the following named municipalities and persons representing them having appeared herein, that is to say, the city of Saginaw by *Bird J. Vincent*, city attorney, and *George W. Henzel*, president of the Saginaw Board of Commerce; the city of Bay City by *J. L. McCormack*, city attorney, *John G. Dean*, mayor, and *Mr. DeBats*, city manager, and by *Commissioners Todd and Gunn*; and the village of Frankenmuth having appeared by *H. A. Otto*, its village attorney, and *F. Hubinger*, village president; and the testimony having been fully taken and having been considered;

And it appearing that said proposed sale and purchase of the property of the Valley Home Telephone Company by the Michigan State Telephone Company is in the interest of public convenience and necessity, and that the property proposed to be sold and purchased is reasonably worth the price agreed to be paid therefor, \$1,250,000; and the Commission having given due consideration to the interests of the several municipalities affected by said sale and purchase, and to the rights and interests of the connecting telephone companies, and other persons interested in the telephone service which will be affected by said proposed sale and purchase; and it appearing to the Commission that the rates, rentals and charges applied for are just and reasonable to the extent and as hereinafter set forth;

And it appearing to this Commission that the Michigan State Telephone Company should continue its connection, and interchange of service with all of the telephone companies with which the Valley Home Telephone Company now maintains connection, and with which it interchanges telephone service, particularly the Moore Telephone System, the Davidson Telephone Company, the Michigan Independent Telephone and Traffic Association, and the Union Telephone Company, and until the further order of the Commission, to maintain the same connections and to

C. L. 124]

receive and give the same interchange of telephone service that is now given and received;

And that the telephone exchange now maintained by the Valley Home Telephone Company at Flint should be discontinued, and the Michigan State Telephone Company should give the same service to subscribers of the Valley Home Telephone Company that are now served at and through its telephone exchange at Flint, Michigan, they now receive from the Valley Home Telephone Company;

And that the franchises granted to the Valley Home Telephone Company and the contracts and agreements heretofore made between the Valley Home Telephone Company and the cities of Bay City and Saginaw, governing the use of telephone poles, conduits, cable and telephone service should, until the further order of the Commission, be recognized and carried out by the Michigan State Telephone Company in the same manner they are being recognized and carried out by the Valley Home Telephone Company at the date of this order in respect to the property to be sold and purchased in pursuance of this order, and the contract annexed hereto and marked Exhibit A; subject, however, to any further order of the Commission that shall or may be made in the premises, if said franchises, contracts or agreements shall be found to be discriminatory and unlawful and subject to the general power of any local or State authority having jurisdiction thereof to make such orders, rules and regulations in relation thereto as shall be deemed just, reasonable and equitable;

Now, therefore, it is hereby ordered by the Michigan Public Utilities Commission:

(1) That the sale by the Valley Home Telephone Company to the Michigan State Telephone Company of all of its property and assets specified in the contract annexed hereto, marked Exhibit A, and made a part hereof, and the purchase of all of said property and assets of the Valley Home Telephone Company by the Michigan State Tele-

phone Company in accordance with said contract annexed hereto, marked Exhibit A, and made a part hereof, is hereby approved; any and all of said property to be conveyed by the Valley Home Telephone Company to the Michigan State Telephone Company to be conveyed and delivered to it free and clear of all liens, levies, mortgages and encumbrances of whatsoever kind, name, nature or description, except a certain mortgage deed of trust, made and executed by the Valley Home Telephone Company to the Detroit Trust Company, Trustee, of Detroit, Michigan, dated August 1, 1912. The amount of principal and interest due upon the outstanding bonds secured by said trust mortgage, at the time of the payment of the purchase price by the Michigan State Telephone Company to the Valley Home Telephone Company, shall be deducted from the purchase price fixed in said contract annexed hereto and marked Exhibit A herein and hereby approved, such outstanding bonds not, however, to include the bonds of the Valley Home Telephone Company pledged as collateral security to notes or other obligations.

(2) Any and all franchises and any and all contracts, leases and agreements entered into by the Valley Home Telephone Company with other persons, firms or corporations, (municipal or others) or to which the Valley Home Telephone Company shall be a party, shall be tendered by the Valley Home Telephone Company to the Michigan State Telephone Company, and said Michigan State Telephone Company shall have the right to accept or reject any or all of said franchises, contracts, leases, agreements or arrangements which shall be so submitted to it.

(3) Included in the property to be sold, shall be the cash and deposits, employees' working fund, bonds in the treasury of the Valley Home Telephone Company, bills receivable, debts due from subscribers and agents' debts from connecting companies and accounts receivable, as specified in Paragraph VI. of the contract annexed hereto and marked Exhibit A; and settlements shall be made between said telephone companies as of the date of the

consummation of said sale. By said settlement, the Valley Home Telephone Company shall account to the Michigan State Telephone Company for any and all differences, there shall or may be, between the then amount of the items last above-mentioned and the amount at which such items are stated in Paragraph VI. of the contract annexed hereto and marked Exhibit A; the difference in the amount of the first four of said items to be accounted for at face value, the difference in the fifth and sixth items above-mentioned, at 90 cents on a dollar, and of the last item above-mentioned, at 50 cents on a dollar; and for all unearned rentals collected in advance, for deposits and funds on hand to cover unaccrued liabilities and indebtedness for compensation to become due to injured employees.

And the Michigan State Telephone Company is to disburse the amount allowed on such adjustments for such compensation to injured employees for the account of the Valley Home Telephone Company as and when the payment shall become due, until the amount allowed is exhausted or such payments completed, but the Valley Home Telephone Company shall, if the amount allowed shall be exhausted before the payments are completed, make the remainder of the original payments as provided in Paragraph VI. of the contract annexed hereto and marked Exhibit A.

(4) The tax reserve accumulated by the Valley Home Telephone Company for the current tax year of the sale shall be used by the Michigan State Telephone Company to pay the taxes of the then current tax year. When the same shall be levied, payable and paid, an adjustment shall be made between the parties and the Valley Home Telephone Company shall pay to the Michigan State Telephone Company any deficiency that shall arise, for its proportionate part of said taxes; and if the amount set aside by the Valley Home Telephone Company for tax reserve shall be greater than the amount required to be paid for the proportionate period by the Michigan State Telephone Company, then the Michigan State Telephone Company

shall account to the Valley Home Telephone Company for said difference.

(5) The Michigan State Telephone Company shall not assume any of the debts, liabilities, obligations or contracts of the Valley Home Telephone Company except as specified in this order, and the Valley Home Telephone Company is to protect the Michigan State Telephone Company against any and all undisclosed debts, obligations, contracts or liabilities, or any claim or claims made or asserted as such, as provided in the contract annexed hereto and marked Exhibit A.

(6) The price at which the property of the Valley Home Telephone Company, as herein described, shall be sold to the Michigan State Telephone Company, and at which the Michigan State Telephone Company shall purchase the same, shall be \$1,250,000, and the purchase price of said property and business of the Valley Home Telephone Company shall be paid by the Michigan State Telephone Company to the Valley Home Telephone Company as follows:

(a) The sum of \$300,000 shall be paid in cash. From the remaining \$950,000 there shall be deducted the following items:

(1) The amount advanced by the Michigan State Telephone Company to the Valley Home Telephone Company to defray the cost and expense of the inventory, appraisal and audit and the interest thereon, the same being represented by notes given by the Valley Home Telephone Company to the Michigan State Telephone Company, which notes shall be cancelled by the Michigan State Telephone Company and surrendered to the Valley Home Telephone Company;

(2) The amount of principal and interest due upon the outstanding bonds of the Valley Home Telephone Company, secured by mortgage given by the Valley Home Telephone Company to the Detroit Trust Company of Detroit, Michigan, Trustee;

(3) Such other deductions as shall or may be necessary in making the adjustments and settlements provided to be made under Paragraph VI. of the contract annexed hereto and marked Exhibit A or otherwise:

(b) The balance due to the Valley Home Telephone Company, after the above-mentioned cash payments and deductions shall have been made from the total purchase price \$1,250,000, shall be paid to the Valley Home Telephone Company by the Michigan State Telephone Company in stock of the American Telephone and Telegraph Company at its market price at the time of payment thereof or in cash at the option of the Michigan State Telephone Company.

(7) The telephone exchange heretofore maintained by the Valley Home Telephone Company at Flint is hereby ordered and directed to be discontinued and dismantled by it upon the giving or offer to give by the Michigan State Telephone Company, telephone service to the subscribers to the telephone service of the Valley Home Telephone Company now served at and through its Flint exchange.

(8) The Michigan State Telephone Company shall proceed, after purchasing and acquiring the property of the Valley Home Telephone Company, as provided in this order, with all convenient speed to consolidate the exchanges and property of the Valley Home Telephone Company and the Michigan State Telephone Company, in the cities of Bay City and Saginaw, and the village of Frankenmuth so as to eliminate duplication of telephone service and to furnish service to all subscribers of either of said telephone companies involved in this sale, purchase and consolidation.

(9) Upon the sale, purchase and consolidation of the properties of the Valley Home Telephone Company and the Michigan State Telephone Company, and upon the carrying out of the terms and conditions of this order, and of the contract annexed hereto marked Exhibit A and made a part hereof as modified by this order, the application of the city of Bay City for itself, the Bay City Board of Commerce, Bay City Merchants' Association, and others, for physical connection between the lines and exchanges of the Valley Home Telephone Company and the Michigan State Telephone Company and for interchange of local and long distance telephone service in Bay City between said telephone companies, shall be dismissed. (File T-258). And the application of the city of Saginaw, a municipal corporation, in its own behalf, and in behalf of the Saginaw Board of Commerce, the Merchants' and Manufacturers' Association, the Bancroft Hotel Company, and others, for physical connection between the telephone lines and facilities of the Valley Home Telephone Company and the Michigan State Telephone Company, and interchange of

local and long distance telephone service between said companies at Saginaw, shall be dismissed. (File T-247). And the application of the Merchants' Association of Frankenmuth for physical connection between the telephone exchanges of the Valley Home Telephone Company and the Michigan State Telephone Company and for the interchange of local and long distance telephone service at Frankenmuth shall be dismissed. (File T-353).

(10) Any and all toll calls originating with the subscribers of either telephone company involved in this sale, purchase and consolidation shall be so routed and handled as to give the most direct, prompt and efficient telephone service to the persons originating such telephone toll calls, and, if possible, so as to terminate the same at the telephone station of the party called, in case he shall be a telephone subscriber; and all incoming toll calls originating on the lines of other companies than the Michigan State Telephone Company shall be so handled by the Michigan State Telephone Company as to render the most direct, prompt and efficient telephone service to the subscribers of the originating company.

(11) Within twenty days after the service of a certified copy of this order upon the Valley Home Telephone Company and the Michigan State Telephone Company, each of said telephone companies shall severally file with the Commission an acceptance of the terms of this order and within thirty days after the approval, of the sale and purchase approved by this order, by the Interstate Commerce Commission, if such approval shall be deemed necessary, the contract annexed hereto and marked Exhibit A, as modified by the terms of this order, shall be carried out and such sale and purchase consummated.

(12) The rates, rentals, and charges now in force in the several telephone exchanges of the Valley Home Telephone Company and the Michigan State Telephone Company which will be directly involved in the consolidation of telephone property resulting from the sale and purchase provided for herein shall continue as at the present time until the properties acquired by the Michigan State Telephone

Company from the Valley Home Telephone Company shall be consolidated with the property of the Michigan State Telephone Company, and upon the making of such consolidation in the cities of Bay City and Saginaw and in the village of Frankenmuth, the rates, rentals and charges of said Michigan State Telephone Company in its several exchanges acquired from the Valley Home Telephone Company and in Bay City, Saginaw and Frankenmuth where telephone consolidation is made, shall be as hereinafter stated, said several exchanges being grouped herein for rate-making purposes, as follows:

GROUP I.

Bayport, Gagetown, Otisville, Owendale.

	<i>Per Month</i>
Business telephone, one-party.....	\$2 30
Business telephone, two-party.....	2 17
Business telephone, four-party.....	2 00
Residence telephone, one-party.....	1 75
Residence telephone, two-party.....	1 67
Residence telephone, four-party.....	1 45
Business extension telephone.....	1 00
Residence extension telephone.....	50
Rural business telephone, within 6 miles of central office....	2 25
Rural business telephone, more than 6 miles from central office	2 50
Rural residence telephone, within 6 miles of central office....	1 75
Rural residence telephone, more than 6 miles from central office	2 00

GROUP II.

Akron, Birch Run, Clio, Fairgrove, Frankenmuth, Mayville, Reese, Sebawaing, Unionville, Vassar.

	<i>Per Month</i>
Business telephone, one-party.....	\$2 88
Business telephone, two-party.....	2 33
Residence telephone, one-party.....	2 00
Residence telephone, two-party.....	1 83
Residence telephone, four-party.....	1 67
Business extension telephone.....	1 00
Residence extension telephone.....	50
Rural business telephone, within 6 miles of central office.....	2 25
Rural business telephone, more than 6 miles from central office	2 50
Rural residence telephone, within 6 miles of central office....	1 75
Rural residence telephone, more than 6 miles from central office	2 00

GROUP III.

Caro.

Business telephone, one-party.....	\$3 00
Business telephone, two-party.....	2 50
Residence telephone, one-party.....	2 25
Residence telephone, two-party.....	2 00
Residence telephone, four-party.....	1 75
Business extension telephone.....	1 00
Residence extension telephone.....	75
Rural business telephone.....	1 75
Rural residence telephone, within 3 miles of central office....	1 50
Rural residence telephone, more than 3 miles and less than 6 miles from central office.....	1 67
Rural residence telephone, more than 6 miles and less than 9 miles from central office.....	1 83
Rural residence telephone, more than 9 miles from central office	1 92

GROUP IV.

Saginaw and Bay City.

Business telephone, one-party.....	7 00
Business telephone, two-party.....	6 00
Residence telephone, one-party.....	3 50
Residence telephone, two-party.....	3 00
Residence telephone, four-party.....	2 50
Business extension telephone.....	1 00
Residence extension telephone.....	50
Rural business telephone, within 6 miles of central office....	3 00
Rural business telephone, more than 6 miles from central office	3 25
Rural residence telephone, within 6 miles of central office....	2 50
Rural residence telephone, more than 6 miles from central office	2 75

The following rates, rentals and charges and rules and conditions of service shall be applicable to all telephone exchanges above mentioned:

Private Branch Exchange Service.

	<i>Per Month</i>
Switchboards, non-multiple, first position.....	\$6 00
Additional positions, each.....	5 00
Trunk lines, 20 per cent. more than individual line business rate.	
Stations and extension stations within 660 feet of the switch-board or main station:	
First 10 stations.....	1 35
Next 40 stations.....	1 10
Next 50 stations.....	85
All other stations.....	60

(13) All other rates, rules, regulations and conditions of service now in effect at Michigan State Telephone Company's exchanges, as filed with this Commission in its general exchange tariff applicable to its several exchanges in the cities and villages involved herein, shall be effective for all exchanges above-mentioned.

(14) The rates, rentals and charges above provided for are based upon the rendition of reasonably adequate telephone service by the Michigan State Telephone Company, and in case it shall neglect, fail or refuse to render such telephone service, the Commission reserves the right to reduce the rates, rentals and charges above provided for, either with or without notice to said telephone company.

(15) Nothing contained in this order shall be construed to deprive the Commission of such jurisdiction as shall be conferred upon it by law, to make any other, further, or different orders, rules and regulations in relation to the rates, rentals, tolls and charges, and rules and conditions of service of said Michigan State Telephone Company at its several exchanges involved in this sale, purchase and consolidation.

(16) The Michigan Public Utilities Commission, by this order, expressly waives notice of hearing on the application of the Valley Home Telephone Company and the Michigan State Telephone Company for an order approving the sale and transfer hereby and herein approved, by the Interstate Commerce Commission, and consents that said Interstate

Commerce Commission may proceed to hear and dispose of such application without notice to this Commission.

(17) The property to be sold by the Valley Home Telephone Company and purchased by the Michigan State Telephone Company to include any and all physical property whether used or unused, mentioned and described in the inventory and appraisal of the property and assets of the Valley Home Telephone Company by the Michigan Public Utilities Commission, or its employees, now on file with that Commission, a copy of which said inventory and appraisal is in possession of the Valley Home Telephone Company and of the Michigan State Telephone Company, together with any and all bills, promissory notes, bonds, cash on hand, accounts, claims, choses in action, licenses, franchises, contracts, agreements and understandings, and any and all other property, whether real, personal or mixed, tangible or intangible, now belonging to the Valley Home Telephone Company or in which it may have an interest, subject to the terms and conditions of this order and subject to the reservations and exceptions contained herein and in the contract annexed hereto marked Exhibit A and made a part hereof.

(18) Service of this order shall be made by delivery of a certified copy thereof to the Michigan State Telephone Company, Detroit, Michigan, and Thomas G. Long, its attorney, Detroit, Michigan; to the Valley Home Telephone Company, Saginaw, Michigan, and to A. H. McMillan, its attorney, Bay City, Michigan; to the city of Saginaw; to the city of Bay City; to the village of Frankenmuth; to the city of Flint; to the Moore Telephone System, Caro, Michigan; to the Davidson Telephone Company, Davidson, Michigan; and to the Michigan Independent Telephone and Traffic Association, Grand Rapids, Michigan.

January 14, 1922.

In re APPLICATION OF THE CITIZENS TELEPHONE COMPANY OF
GRAND RAPIDS TO INCREASE ITS RATES, RENTALS AND
CHARGES AT ITS SEVERAL EXCHANGES.

T-207.

Decided January 16, 1922.

**Rates Agreed Upon Between Company and Representatives of the
Exchange Authorized.**

ORDER.

This matter having been brought on to be heard, and an order * having been made herein under date of August 10, 1921, the said order having been later modified by order † under date of October 8, 1921, and having been further modified by an order ‡ of December 1, 1921, and representatives of the exchange at Jamestown, Michigan, having agreed with the Citizens Telephone Company of Grand Rapids upon the rates which should be charged for telephone service rendered at the Jamestown exchange by said telephone company, and the Commission having given the matter due consideration;

Now, therefore, it is hereby ordered by the Michigan Public Utilities Commission, That, effective February 1, 1922, the rates, rentals and charges of said telephone company to be charged to and collected from subscribers served at and through its exchange at Jamestown, Michigan, shall be as follows:

	<i>Per Month</i>
Business telephone, one-party.....	\$2 00
Residence telephone, one-party.....	1 50
Residence telephone, four-party.....	1 25
Business farm telephone, within 6 miles of central office.....	2 00
Business farm telephone, more than 6 miles from central office.	2 25
Residence farm telephone, within 6 miles of central office.....	1 50
Residence farm telephone, more than 6 miles from central office	1 75

* See Commission Leaflet No. 118, p. 817.
† See Commission Leaflet No. 120, p. 1325.
‡ See Commission Leaflet No. 122, p. 353.

In all other respects, the rates, rentals and charges and rules and conditions of service now in force shall be continued at said exchange.

January 16, 1922.

In re APPLICATION OF THE MORENCI TELEPHONE COMPANY
FOR AUTHORITY TO INCREASE AND TO ISSUE AND SELL
CAPITAL STOCK.

D-1303.

Decided January 17, 1922.

Increase in Capital Stock and Sale Thereof Authorized.

OPINION AND ORDER.

In this matter said applicant, the Morenci Telephone Company, having on January 9, 1922, filed its application herein praying it be authorized to increase its capital stock from \$50,000 to \$75,000, the said increase to consist of \$25,000 in par amount of common capital stock; and the said matter having been set to be heard on this date and the applicant having appeared by *C. E. Smith*, its secretary, and *H. Thane Bauman*, its attorney, and the Commission having considered the application filed as aforesaid on January 9, 1922, and all documents and papers accompanying the same and the testimony taken before it, said Commission finds:

(a) That the Morenci Telephone Company operates a telephone utility at Morenci in Lenawee County, Michigan, and that it has outstanding at the present time \$35,000 in par amount of common stock and \$15,000 in par amount of preferred stock, and that it has no bonds or other funded debt outstanding;

(b) That at a meeting of its stockholders held January 1, 1922, the said corporation increased its capital stock from \$50,000 to \$75,000, and adopted an amendment to Article Fifth of its Articles of Incorporation to that effect;

(c) That the said telephone company finds it necessary to make additions, extensions, betterments and improvements to its property, plant and facilities, and to issue and sell more capital stock for that purpose, and that the use of the moneys to be secured by the issuance and sale of \$25,000 additional common capital stock is reasonably required for and essential to the proper capital purposes of the said corporation, and that all said moneys are to be applied to the said capital purposes of the said corporation;

(d) That all of the requirements of law have been complied with, and that the applicant has paid into the Treasury of the State of Michigan the sum of \$50.00 being the amount of money payable to the State by virtue of the provisions of Section 11 of Act 419 of the Public Acts of Michigan for the year 1919, and has filed the receipt of the State Treasurer therefor in the office of this Commission.

Now, therefore, by virtue of the authority vested in this Commission by the provisions of Act No. 144 of the Public Acts of Michigan for the year 1909, as amended and now in force, and of Act No. 419 of the Public Acts of Michigan for the year 1919,

It is hereby ordered: (1) That the Morenci Telephone Company, a corporation, be, and it is hereby, authorized and empowered to increase its capital stock from \$50,000 to \$75,000, the increase of said capital stock to consist of \$25,000 of common capital stock, and to issue and sell from time to time such of said increase as shall be necessary to purchase and pay for additions, extensions, betterments and improvements to the plant, property and facilities of the said telephone utility, none of said common capital stock of said corporation to be sold at less than par; any of the said stock to be sold from time to time at the best price obtainable but under no circumstances at less than par and for cash only, the proceeds to be derived from the issue and sale of any stock sold to be applied only to the capital purposes mentioned in this order.

(2) That the said corporation, the Morenci Telephone Company, is hereby authorized and empowered to file the certificate of increase of its capital stock in the office of the Secretary of State and in the office of the county clerk of the county of Lenawee.

(3) That the said corporation shall on July 1, 1922, make a report to this Commission verified by oath of some responsible officer of the corporation showing the amount of capital stock then issued and sold by virtue of authority contained in this order and the consideration received upon the issue and sale of said stock, and that said corporation shall make a like report at the end of each six months' period thereafter until all of the \$25,000 of common capital stock, the sale of which is authorized by this order, shall have been issued and sold and the proceeds applied to the capital purposes of the said corporation.

(4) That, as a condition precedent to the issuance or sale of any of the said stock, the Morenci Telephone Company shall cause a certified copy of this order to be entered at length upon its corporate minutes.

(5) The Commission hereby specifically retains and reserves to itself jurisdiction of this matter and the right to make any further order herein which in its judgment should be hereafter made.

January 17, 1922.

MISSOURI.

Public Service Commission.

PUBLIC SERVICE COMMISSION *v.* SOUTHWESTERN BELL TELEPHONE COMPANY.

Case No. 2121.

Decided January 30, 1922.

Temporary Increased Rates Established as Maximum Rates.

SUPPLEMENTAL ORDER No. 2.

It appearing that the Commission, after due investigation, and after the company named above had submitted satisfactory evidence that its rates for telephone service as charged by it were inadequate, unjust and unreasonable, did, by its order * of record in the above-entitled case on the twenty-sixth day of November, 1919, permit said company to put certain increased rates into effect for a temporary period under certain terms and conditions and, by its Supplemental Order No. 1† on the eighteenth day of December, 1920, allow said company to continue the rates authorized by its order * on the twenty-sixth day of November, 1919, for a further temporary period, expiring on February 1, 1922, under certain terms and conditions, and

It now appearing, further, that the above-named company did show by its verified report on the basis of one year, that the revenues from the operation had not been sufficient to pay an unreasonable rate of return upon the investment,

Therefore, it is ordered, 1. That the above-mentioned company be permitted to continue to charge the present existing rates now on file with the Commission as maximum rates, until otherwise ordered by the Commission; that the Commission retain full and continued jurisdiction of the

* See Commission Leaflet No. 97, p. 367.

† Noted in Commission Leaflet No. 110, p. 1867.

parties and the subject-matter of this cause to change, modify or amend said rate schedule at any time upon the files and record evidence now before the Commission or that may hereinafter be adduced by the Commission.

Ordered, 2. That the above-named company be required to keep a full and correct account of revenues and expenses of its exchanges and other properties, and file a full and complete report thereof with the Commission at the expiration of a twelve-months' period from February 1, 1922, which report shall be in addition to any other reports required by law.

Ordered, 3. That this order shall be in full force and effect from and after February 1, 1922.

Ordered, 4. That the secretary of the Commission shall forthwith serve upon the parties hereto, a certified copy of this order, and that the company shall, on or before the ninth day of February, 1922, notify the Commission in the manner prescribed in Section 25 of the Public Service Commission Law, whether the terms of this order are accepted and will be obeyed.

January 30, 1922.†

† On the same day the same order was issued applicable in the following cases: *Cass County Telephone Company* (No. 2128), *Missouri Central Telephone Company* (No. 2129), *Boonville Telephone Company* (No. 2130), *Buffum Telephone Company* (No. 2131), *Pattonsburg Home Telephone Company* (No. 2132), *Kansas City Long Distance Telephone Company* (No. 2133), *Kinloch Telephone System* (No. 2136), *Commercial Telephone Company* (No. 2149).

In re THE SOUTHWESTERN BELL TELEPHONE CO. 1017
C. L. 124]

In re SUSPENSION OF RATES OF THE SOUTHWESTERN BELL
TELEPHONE COMPANY AT KIRKSVILLE.

Case No. 2352.

Decided January 31, 1922.

**Authorized Increased Rates Made Maximum Rates Except as to Rate
for Business Service Which Was Reduced.**

SUPPLEMENTAL ORDER No. 2.

It appearing that the Commission, after due investigation, and after the company named above had submitted satisfactory evidence that its rates for telephone service as charged by it at its exchange at Kirksville, Missouri, were inadequate, unjust and unreasonable, did, by its order * of record in the above-entitled case on the fifteenth day of September, 1920, permit said company to put certain increased rates into effect for a temporary period under certain terms and conditions, and by its Supplemental Order No. 1,† on the twenty-ninth day of October, 1921, allow said company to continue the rates authorized by its order * on the fifteenth day of September, 1920, for a further temporary period expiring February 1, 1922, under certain terms and conditions, and,

It now appearing, further, that the above-named company did show by its verified report on the basis of one year that the revenues from the operation will allow the rate for business individual line service to be reduced from \$3.50 per month to \$3.00 per month,

Therefore, it is ordered, 1. That the Southwestern Bell Telephone Company be permitted to continue the rates allowed to be charged in the above-mentioned order for a further period of one month from February 1, 1922, to March 1, 1922.

Ordered, 2. That the Southwestern Bell Telephone Company be authorized to file a rate sheet containing a rate

* See Commission Leaflet No. 107, p. 536.

† Noted in Commission Leaflet No. 121, p. 85.

for business individual line service of \$3.00 per month, effective March 1, 1922, upon not less than one day's notice; that the rates heretofore authorized in all other respects by the Commission in the above-mentioned orders be continued, and that the Southwestern Bell Telephone Company be permitted to charge the above authorized rates as the maximum rates until otherwise ordered by the Commission; that the Commission retain full and continued jurisdiction of the parties and subject-matter of this cause to change, modify or amend said rate schedule at any time upon the files and record evidence now before the Commission or that may hereinafter be adduced by the Commission.

Ordered, 3. That the Southwestern Bell Telephone Company be required to keep a full and correct account of revenues and expenses of its exchange at Kirksville, Missouri, and file a full and complete report thereof with the Commission at the expiration of a twelve-months' period from March 1, 1922, which report shall be in addition to any other reports required by law.

Ordered, 4. That this order shall be in full force and effect from and after February 1, 1922.

Ordered, 5. That the secretary of the Commission shall forthwith serve upon the parties hereto a certified copy of this order, and that the company shall, on or before the ninth day of February, 1922, notify the Commission in the manner prescribed in Section 25 of the Public Service Commission Law, whether the terms of this order are accepted and will be obeyed.

January 31, 1922.*

* Authorized increased rates were made the maximum rates in the following cases:

<i>Versailles Telephone Company.....</i>	(No. 2820).	February 7, 1922.
<i>Bolivar Telephone Company.....</i>	(No. 2234).	February 13, 1922.
<i>Hayseed Telephone Line at Bernie...</i>	(No. 2187).	February 13, 1922.
<i>Liberal Mutual Telephone Company.</i>	(No. 2206).	February 14, 1922.

In re SUSPENSION OF RATES OF THE LIBERTY TELEPHONE
COMPANY.

Case No. 2631.

Decided January 31, 1922.

Authorized Increased Rates Continued for Further Period.

SUPPLEMENTAL ORDER NO. 1.

It appearing that the Commission, after due investigation, and after the company named above had submitted satisfactory evidence that certain of its rates for telephone service, charged at its exchange at North Kansas City, Missouri, were inadequate, unjust and unreasonable, did, by its order * in the above-entitled case, on the fourteenth day of December, 1920, permit the said company to put certain increased rates into effect for a temporary period, under certain terms and conditions, and,

It now appearing, further, that the company did show by its verified report, on the basis of one year, that its revenues from operation had been sufficient to pay a not unreasonable or high rate of return on the investment, and it appearing that the operating costs of the company have not been materially reduced during the period covered by the above-named report,

Therefore, it is ordered, 1. That the Liberty Telephone Company, at North Kansas City, Missouri, be permitted to continue the rates allowed to be charged in the above-mentioned order for a further period of thirteen months, from February 1, 1922, to March 1, 1923, unless otherwise ordered by the Commission, at the end of which temporary period such increased rates shall cease without further notice, and the rates and charges of said Liberty Telephone Company shall then be reduced and restored by it to the rates on file and charged by it previous to the effective date of the above-mentioned order; *provided*, that the Commission may hereafter, by further order, continue such

* See Commission Leaflet No. 110, p. 1854.

increase in rates for another and further period, or otherwise change or modify such rates and charges, either upon evidence now before the Commission, or which may be offered in this case, and for the purpose of making such changes in said rates the Commission hereby fully retains jurisdiction in this case.

Ordered, 2. That said Liberty Telephone Company, of North Kansas City, Missouri, be required to keep a full and correct account of revenues and expenses of its exchange, and file a full and complete report thereof with the Commission at the expiration of a twelve months' period from February 1, 1922, which report shall be in addition to any other reports required by law.

Ordered 3. That this order shall be in full force and effect from and after this date.

Ordered, 4. That the secretary of the Commission shall forthwith serve upon the parties hereto a certified copy of this order, and that the company shall, within ten days, notify the Commission, in the manner prescribed in Section 25 of the Public Service Commission Law, whether the terms of this order are accepted and will be obeyed.

January 31, 1922.†

† On February 13, 1922, authorized increased rates were continued for a further period *In re Kansas City Telephone Company* (No. 2654), in the Fairmount exchange area and on February 15, 1922, *In re Cassville Missouri Telephone Company* (No. 2305).

In re APPL. OF THE CLINTON COUNTY TEL. CO. *et al.* 1021
C. L. 124]

In re APPLICATION OF THE CLINTON COUNTY TELEPHONE
COMPANY FOR AUTHORITY TO ESTABLISH TOLL RATES
BETWEEN ITS EXCHANGES AND CONNECTING EXCHANGES
OF OTHER COMPANIES.

Case No. 3021.

In re APPLICATION OF THE CAMERON TELEPHONE COMPANY
FOR AUTHORITY TO ESTABLISH TOLL RATES BETWEEN ITS
EXCHANGE AND CONNECTING EXCHANGES OF OTHER COM-
PANIES.

Case No. 3024.

CLOVER LEAF TELEPHONE COMPANY *v.* CLINTON COUNTY
TELEPHONE COMPANY.

Case No. 3038.

Decided February 7, 1922.

**Flat Rate Service Between Certain Exchanges Discontinued and Toll
Rates Established—Application for Toll Charges Between
Certain Exchanges Denied.**

REPORT.

The Clinton County Telephone Company on June 29, 1921, filed with the Commission a petition asking for authority to establish toll rates between its several exchanges and connecting exchanges of other companies in Clinton, Platte and Buchanan Counties, Missouri, and filed toll rates governing the intended charges, this under Case No. 3021.

On July 5, 1921, the Cameron Telephone Company filed its petition asking that it be allowed to put in force certain toll charges for messages sent from Cameron, Missouri, to exchanges in Clinton, De Kalb and Buchanan Counties, and filed a rate sheet showing the tolls that it desired to charge for messages from Cameron to the various exchanges interested.

On July 7, 1921, the Clover Leaf Telephone Company, of Lathrop, Missouri, filed its complaint asking that a toll

rate be established on messages sent between Plattsburg and Lathrop, Converse and Lathrop, and Turney and Lathrop, and asked that a proper division of the charges collected between these companies be established.

A large number of protests were received by the Commission from the city officials of the various towns interested and the patrons of the three telephone companies. A public hearing was held at Plattsburg, Missouri, on November 9, 1921, by a member of the Commission, the three cases consolidated for the purpose of the hearing and testimony was taken and exhibits filed. Since the date of the hearing briefs and arguments have been received from the telephone companies, the cities and other interested parties.

The three cases are now before the Commission for decision upon the testimony introduced at the hearing, the exhibits filed and the briefs and arguments received and will be considered in all matters as one case, and order issued as such.

The Clinton County Telephone Company is an incorporated company, owning exchanges at Gower, Agency, Easton, Hemple, Trimble, Converse and Turney, and has telephone service furnished its subscribers at Lathrop, Osborn, Stewartsville and Cameron, by the local companies.

The company owns or operates no exchange at Cameron, Missouri. The Cameron Telephone Company furnishes service to about 100 of the subscribers of the Clinton County Telephone Company, for which it receives \$6.00 per annum, per subscriber, the regular Class A switching rate, and at Lathrop, Missouri, the Clover Leaf Telephone Company switches about 70 Class A, rural line, subscribers for the Clinton County Telephone Company at its regular Class A rate of \$6.00 per annum. The Clinton County Telephone Company owns no exchange at Lathrop, Missouri, or at Osborn and Stewartsville.

The Clover Leaf Telephone Company owns and operates an exchange at Lathrop, Missouri.

The Cameron Telephone Company owns and operates an exchange at Cameron, Missouri.

The Clinton County Telephone Company for many years had a small exchange located in Cameron, Missouri, over which it furnished service to about 175 subscribers. Some of these subscribers were located within the city and others were on rural lines. During the year 1917 the Cameron Telephone Company purchased the property of the Clinton County Telephone Company in Cameron. After eliminating the duplicate subscribers there remained about 100 subscribers, who were connected onto its switchboard, and since that time it has been furnishing service to these subscribers at the regular rate of \$6.00 per annum for switching service.

A contract was entered into between the Clinton County Telephone Company and the Cameron Telephone Company at that time which provided that for a period of six years free service was to be given between the subscribers of the Cameron Telephone Company and the subscribers of the Clinton County Telephone Company. Both companies now seek to abrogate this contract and to establish a toll rate for messages.

The Clinton County Telephone Company claims that it has not sufficient revenue to provide a reasonable return on its investment; that it is furnishing service which is discriminatory in its nature, and that the free service is absorbing the service.

The company furnishes a flat rate service at 50 cents per month for messages sent from its exchange at Agency, Missouri, to St. Joseph, Missouri, a distance of about 12 miles. It asks that this flat rate service be discontinued and that the regular toll rate be applied to messages between these points, for the reason that the rate as now given is discriminatory and subject to abuse; that the subscribers of the several other exchanges belonging to the Clinton County Telephone Company call up the subscribers at Agency who are paying the 50 cents per month for the flat rate service, have them transmit messages for them to parties in St. Joseph and also secure information for them. There is no question that the complainant's request should be com-

plied with and that it should be authorized to do away with the flat rate service, and file a rate sheet covering the standard rate for toll messages for a distance of 12 miles.

The testimony of the protestants was to the effect that the Clinton County Telephone Company was organized many years ago; that it now has about 600 stockholders each owning one or more shares of stock, the par value of which is \$50.00, and that the company was organized for the purpose of furnishing free service between the exchanges in Clinton County and Cameron and Lathrop. At former hearings, the subscribers protested vigorously against increases or changes in exchange rates and stated that the company should be compelled to do away with the free service and in lieu thereof establish toll rates for messages between the various exchanges.

The exhibits as filed by the three companies showed that it was costing the companies several thousand dollars each year to furnish this free service. The Clinton County Telephone Company alone estimated that it was costing it \$5,166.23 to furnish this free service for a period of nine months, and the average cost units used by it in making its calculations are not unreasonable or high.

The testimony of the mayor of Lathrop in stating that he as a subscriber of the Clover Leaf Telephone Company, was entitled to the use of this free service, is wrong in principle and in fact. All commissions have for the past few years recognized the fact that free service is discriminatory and should, wherever possible, be done away with.

However, the present case presents some unusual circumstances. The Clinton County Telephone Company formerly had an exchange at Cameron, Missouri. About three years since this exchange was sold to the Cameron Telephone Company; the subscribers, many of them, being rural line subscribers, are now being furnished service by the Cameron Telephone Company. A contract was executed that guaranteed free service between subscribers of the Cameron Telephone Company and the Clinton County

Telephone Company for a period of six years. These subscribers, being furnished service by the Cameron Telephone Company, are in some cases shareholders of the Clinton County Telephone Company, and the objective points that they desire to reach are the exchanges of the Clinton County Telephone Company. To put a toll rate into effect between Cameron and the Clinton County Telephone Company exchanges would practically maroon these subscribers from connection with the other exchanges of the Clinton County company, thus allowing free service to all subscribers and stockholders of their company except those who are located in Cameron and Lathrop.

About 70 of the subscribers of the Clinton County Telephone Company are furnished service by the Clover Leaf Telephone Company, of Lathrop, Missouri, the company owning and maintaining the lines and charging the subscribers the regular rural line rate, and paying the Clover Leaf Telephone Company 50 cents per month, per subscriber, for switching them. To put a toll rate into effect between the Clover Leaf Telephone Company and the Clinton County Telephone Company would practically maroon these subscribers in the same manner as stated in regard to the Cameron subscribers.

The subscribers furnished service by the Clover Leaf Telephone Company and the Cameron Telephone Company, and who are really part of the Clinton County Telephone Company, would not be furnished the kind of service that they desire or that the other shareholders and subscribers of the Clinton County Telephone Company would be receiving.

The Clover Leaf Telephone Company stated that if a toll rate was put into effect between Cameron and the Clinton County Telephone Company's exchanges the result would be that all the calls between these exchanges would be switched through the exchange of the Clover Leaf Telephone Company to avoid the payment of the toll charge, and thus load up its traffic to such an extent as would require additional operators.

We may, therefore, assume that practically the main factor in this case is the toll charge asked on messages between Cameron and the Clinton County Telephone Company, and while the testimony and exhibits as filed by all three companies show that they are not making an unreasonable or high rate of return, the situation is not drastic enough to warrant the Commission in setting aside and canceling the contract that was executed by the Cameron Telephone Company and the Clinton County Telephone Company about three years since, and which provided for this free service for a period of six years. The shareholders voted that consolidation and they entered into the contract in good faith, and it no doubt had considerable bearing on the consolidation being made and the plant of the Clinton County Telephone Company in Cameron being turned over to the Cameron Telephone Company. Consequently at this time the Commission will not allow the free service between Cameron and the offices of the Clinton County Telephone Company to be done away with. Then, as a result, the situation will remain unchanged and the additional messages will not be sent through the office of the Clover Leaf Telephone Company.

As a general rule this Commission recognizes the fact that free toll service tends towards expensive operation of a telephone company. But when it is considered that in the original organization of the Clinton County Telephone Company the subscribers had in view free toll service over the entire county, and that contracts exist between these three companies providing for free toll service brought about by part of the subscribers of the Clinton County Telephone Company being transferred to the other exchanges, it seems impractical to establish toll rates in the manner requested by the applicants. If toll rates should be established all subscribers of the Clinton County Telephone Company should come under the same, that is, the toll should be established between all the important exchanges of that company as well as between Plattsburg, Lathrop and Cameron and the other exchanges referred to in the

application herein. Likewise, in view of the particular circumstances in this case, it would not be fair and equitable that the full rates generally established by the Commission should be put into effect. They should only be sufficient to eliminate useless and unimportant traffic and to cover the cost of service. Under the pleadings and evidence before the Commission in these cases, the relief sought should not be granted except as hereinbefore stated.

The Clinton County Telephone Company will be authorized to discontinue the flat service charge of 50 cents per month now in force between Agency, Missouri, and St. Joseph, Missouri, and allowed to file a rate for toll messages under the standard rate rules. The application of the Clinton County Telephone Company in all other respects will be rejected.

The application of the Cameron Telephone Company will be rejected.

The application of the Clover Leaf Telephone Company of Lathrop, Missouri, will be rejected.

An order in conformity with the views above expressed will issue.

ORDER.

The Clinton County Telephone Company, the Cameron Telephone Company and the Clover Leaf Telephone Company having heretofore filed their respective applications with the Commission to establish and charge certain toll rates between certain telephone exchanges as alleged in their respective petitions, and the Commission, with the consent of the parties, having consolidated said cases for the purpose of the hearing and the investigation to be made therein, and having duly heard the evidence presented by said applicants and protestators at a public hearing held at Plattsburg, Missouri, on the ninth day of November, 1921, after due notice to all interested parties of the time and place of said hearing; and the Commission having this day made and filed its report herein containing its findings of fact and conclusions thereon, which report is hereby referred to and made a part hereof,

Now, after due deliberation,

It is ordered, 1. That the Clinton County Telephone Company be, and is hereby, authorized to discontinue and cancel the flat rate service charge of 50 cents per month for toll service between Agency and St. Joseph, Missouri, and to file with this Commission a rate for toll messages between said points under the standard rate rules heretofore adopted by this Commission. It is further ordered that the application of the Clinton County Telephone Company herein in all other respects be, and is hereby, rejected and overruled.

Ordered, 2. That the application of the Cameron Telephone Company herein be, and is hereby, rejected and overruled.

Ordered, 3. That the application of the Clover Leaf Telephone Company herein be, and is hereby, rejected and overruled.

Ordered, 4. That this order shall be in full force and effect on and after fifteen days from the date hereof, and that the secretary of the Commission shall forthwith serve a certified copy of the report and order herein on the interested parties; and that the said Clinton County Telephone Company, Cameron Telephone Company and Clover Leaf Telephone Company, on or before the effective date of this order, notify the Commission, in the manner prescribed in Section 25 of the Public Service Commission Law whether the terms of this order are accepted and will be obeyed.

February 7, 1922.

In re APPLICATION OF THE LAFAYETTE TELEPHONE COMPANY
FOR AUTHORITY TO ISSUE STOCK.

Case No. 3061.

Decided February 23, 1922.

**Former Order Reserving Right to Retire 8 Per Cent. Preferred Stock
Set Aside — Issue of 7 Per Cent. Preferred Stock Authorized.**

SUPPLEMENTAL ORDER No. 1.

After hearing the argument of counsel on the applicant's motion for rehearing heretofore filed herein, and after further consideration of the matters involved, the Commission doubts the advisability of the condition placed in its order* heretofore issued requiring the applicant to reserve the right and power to recall or retire its 8 per cent. preferred stock as set forth in said order.

It now appears to the Commission that it would be inadvisable to make this condition precedent in this case. However, the Commission still believes that it should not authorize the issuance of preferred stock in excess of 7 per cent. at this time unless the applicant voluntarily reserves the right and privilege to recall or retire the same within a reasonable time. The Commission finds that the applicant in this case should be authorized to issue the preferred stock set out in its application, except that the same should bear dividends at the rate of 7 per cent. per annum instead of 8 per cent.

Therefore, after full consideration of the premises,

It is, by the Commission, ordered, 1. That the applicant's motion for rehearing herein be sustained, and that the said order* of the Commission hereinbefore entered on the twelfth day of January, 1922, be, and the same is, vacated and for naught held.

Ordered, 2. That the Lafayette Telephone Company be, and is hereby, authorized to issue its common stock in the sum of \$85,000 only; said stock to be issued and allotted to

* See Commission Leaflet No. 123, p. 721.

the shareholders of The Lafayette Telephone Company; each holder of stock in The Lafayette Telephone Company receiving such proportion thereof as the number of his shares of the old company's stock bears to the total issue of such stock.

Ordered, 3. That the application of the company to issue \$25,000 of 8 per cent. cumulative preferred stock be, and the same is hereby, denied, and in lieu thereof the said company is hereby authorized to issue and sell its 7 per cent. cumulative preferred stock in the sum of \$25,000, to be sold at par or face value, and that the money so procured shall be used for the purpose of making certain additions and extensions to the existing property now purchased by the new company from the old company, and for no other purpose.

Ordered, 4. That said company shall keep separate, true and accurate accounts, showing the disposition of all of the stock hereby authorized to be issued, and shall make semi-annual reports to the Commission, showing the disposition and proceeds from sale, and such accounts, vouchers and records shall be open to audit and may be audited from time to time by accountants and examiners designated by the Commission for such purpose.

Ordered, 5. That the authority hereby given to issue, sell or exchange the stock herein authorized shall apply only to such stock as is issued, sold or exchanged by said company, on or before December 31, 1922.

Ordered, 6. That this order shall take effect on this date and within ten days after the service of a copy of this order upon it the said Lafayette Telephone Company shall notify this Commission whether the terms of this order are accepted and will be obeyed.

February 23, 1922.

NEBRASKA.

State Railway Commission.

In re APPLICATION OF THE COMSTOCK INDEPENDENT TELEPHONE COMPANY ORIGINALLY REQUESTING AUTHORITY TO MAKE CERTAIN INCREASES IN ITS RATE SCHEDULE.

Application No. 4277.

Decided January 27, 1922.

Authorized Increase in Rates Continued in Effect—Mileage Charge Beyond Town Limits Established.

SUPPLEMENTAL FINDINGS.

The original order* herein issued by this Commission granted authority to the Comstock Independent Telephone Company to make certain increases in the schedule of rates, effective July 31, 1920. Supplemental orders have continued in effect the schedule of rates as authorized therein until February 1, 1922.† The great majority of the company's subscribers are residence and farm. The rate increase on this class of service as of July 31, 1920, amounted to but 7.1 per cent. A slightly higher percentage increase was authorized for business service.

The company now makes definite application to the Commission for a further continuance of this schedule and supplements its application with specific showings as to its financial condition. The accounting system as adopted by the Commission has been studiously kept by the company and it is, accordingly, in a position to furnish definite and intelligent information as to its past experience and its present needs. The Commission has given the most careful attention and study to those reports as submitted by the company.

The annual report for 1921 showing summarized statement of the company's financial experience for the year is

* See Commission Leaflet No. 106, p. 333.

† See Commission Leaflet No. 123, p. 766.

at hand. It discloses the following financial condition of the company:

The total gross revenues for the year 1921 amount to \$5,246.16. Total operating expenses for the same fiscal period amount to \$4,834.28. To this amount must also be added taxes accrued in amount of \$115.00, interest accrued in amount of \$431.88, and miscellaneous charges of \$96.40, a total gross expense for the year of \$5,477.64. This leaves a deficit in the profit and loss account for the year of \$231.48, exclusive of any return upon the equity.

The Commission notes that these results, reflecting the actual experience of the company, are somewhat at variance with the Commission's estimates made in the original order* herein as to probable receipts and expenditures under the increased rate schedule. The company has fallen far below the Commission's estimate as to gross receipts. Toll business has taken a slump; receipts therefrom have equalled only about half of the Commission's estimate. Exchange revenues are also less than the estimate, due to loss of subscribers, which loss is probably unavoidable during a period of economic depression such as prevails.

The Commission also notes the financial distress of the company as reflected in its statement of liabilities as follows:

Funded debt	\$1,203 20
Notes payable	6,173 00
Accounts payable	1,087 18
TOTAL	\$8,463 38

The reports of the company further show this indebtedness has been on a constant increase.

Of further significance is an item of over \$1,200 due from subscribers. The total indebtedness above set forth probably results in part from the company's inability to make collections. About 23 per cent. of the company's gross revenues for the year is carried on its books as due from subscribers. Officials of the company advise that the

* See Commission Leaflet No. 106, p. 333.

money stringency among the farmers is fully appreciated and that the company is attempting to cooperate with the farmer subscriber in the solution of their common problem.

The Commission fully appreciates the demand on the part of the public at this time for reduced telephone rates. However, the first principles of justice and equity would prevent any reduction being made in the rate schedule of this company at this time. Here is a company which struggled through the greater period of war prices without increasing its schedule of rates. At the time of increase the percentage amounted to but 7.1 per cent. to the bulk of subscribers. No dividends have ever been paid by the company. In spite of this fact and apparently practicing the strictest economies, the company during the last year has witnessed its outstanding indebtedness increase, is extending credit to its subscribers in amount of \$1,200, and faces a net deficit of \$231.48. By continuing the present schedule of rates the company will probably weather the storm and eventually solve its financial problem. Furthermore, the Commission can do nothing less than authorize such a rate as will pay fair operating expenses, properly maintain the properties and provide for a fair return upon the investment. The experience of the company shows that the above rate has not met these requirements. However, the company appreciates the financial distress of its body of subscribers and is asking no increase at this time. It merely requests a continuance of present rates. This the Commission will authorize.

The Commission will also follow the financial condition of the company as reflected by the reports which are filed with it, very closely. As soon as conditions will warrant, such readjustment of rates to a lower basis will be made.

In addition to continuance of the rate schedule above-mentioned, applicant company requests authority to publish and collect a rate for individual farm line service of 25 cents for each one-quarter mile from town limits in addition to the regular authorized farm line rate. The Commission has commonly authorized such an additional

rate to those farm subscribers who are enjoying this special service. Such a rate for this special service will, accordingly, be authorized herein.

SUPPLEMENTAL ORDER.

It is, therefore, ordered by the Nebraska State Railway Commission, That the Comstock Independent Telephone Company of Comstock be, and the same is hereby, authorized and directed to continue in effect until further order of this Commission the schedule of rates authorized in the original order herein.*

It is further ordered, That applicant company be authorized to publish and collect a rate for individual farm line service of 25 cents for each one-quarter mile from the town limit in addition to the regularly authorized farm line rate.

Made and entered at Lincoln, Nebraska, this twenty-seventh day of January, 1922.†

In re APPLICATION OF THE VILLAGES OF MAXWELL AND BRADY
FOR AUTHORITY TO CONSTRUCT AN ELECTRIC TRANSMIS-
SION LINE FROM NORTH PLATTE TO MAXWELL AND BRADY.

Application No. 4665.

Decided February 3, 1922.

**Clearance Between Transmission Line and Telegraph, Telephone and
Signal Wires Found Insufficient—Permission to Construct
Transmission Line Denied.**

FINDINGS.

The village boards of Maxwell and Brady, Nebraska, on December 6, 1921, made formal application to the Nebraska

* See Commission Leaflet No. 106, p. 333.

† On January 31, 1922, authorized increased rates were continued in effect, *In re Farmers Home Telephone Company* at its Shelton and Gibbon exchanges (No. 4070), and *In re Havana Telephone Company of Indianola* (No. 4395).

State Railway Commission for authority to construct a 13,200 volt electric transmission line from North Platte to the villages of Maxwell and Brady, designating the route for said line upon and over the Lincoln Highway, which highway parallels the rails of the Union Pacific Railroad Company, respondent herein, and is maintained upon and over the right-of-way of said company a major portion of the distance between the villages. After due notice to interested parties a public investigation and hearing was held in the offices of the Commission January 3, 1922, applicant being represented by counsel, as was also the respondent.

The evidence and plats show the distance between North Platte and the village of Brady to be about 25 miles over the Lincoln Highway. About 22 miles of this distance is immediately adjacent and parallel to the railway of respondent, which is double track with heavy leads of telegraph, telephone and signal wires maintained along and over its right-of-way on both sides of the tracks. The Lincoln Highway, as herein described, offers the short line for the purposes sought and would be the most convenient route for the transmission line to follow between the villages. The only question, then, that confronts the Commission under the application is the matter of inductive interference that might arise should the transmission line be located and maintained as prayed for, about 66 feet distant from the wires of respondent between North Platte and Maxwell for a distance of 9 miles, and 128 feet from the signal wires of respondent between the villages of Maxwell and Brady for a distance of about 12 miles.

The only evidence supporting the use of the route as prayed for over the Lincoln Highway was given by Witness H. H. Henningsen, consulting engineer, Omaha, Nebraska. Mr. Henningsen discussed the theory of inductive interference as set up by high voltage transmission lines upon adjacent telegraph, telephone and signal lines and gave it as his opinion that if the proposed transmission line were properly constructed and maintained as

prayed for along the Lincoln Highway, paralleling the rails of the respondent company with a clearance of 66 feet between respondent's telegraph and telephone wires and the transmission line, and 128 feet clearance between the signal lines and the transmission line, there would be no hazard from inductive interference. Mr. Henningsen testified as follows (Transcript, pp. 95-96):

"Q. You do recognize, Mr. Henningsen, that there is such a thing as inductive interference, don't you?"

"A. Yes, sir, there is.

"Q. And that the hazard of inductive interference may be lessened by increasing the separation between the two lines?"

"A. Yes, sir.

"Q. And you will agree, won't you, that a power transmission line located 500 feet from other communicating lines would present less hazard of inductive interference than those located 60 or 70 feet, as you proposed to locate your line?"

"A. Yes, sir.

"Q. In your proposition to deposit \$2,500 with the Commission you said nothing about the Western Union and Union Pacific telegraph lines. Did you purposely omit them from your proposition?"

"A. I did, for this reason,— I do not know what the action is of the telegraph line.

"Q. You are willing to gamble \$2,500 that you won't interfere with the telephone or signal wires but you won't bet that you won't interfere with the telegraph lines?"

"A. I never have had any experience in regard to paralleling telegraph wires, with perhaps one exception, and that is a transmission line from Sioux City to Jefferson, South Dakota. I never have heard of any complaint there. I have never given any thought to telegraph systems because I know nothing about the sensitiveness of telegraph instruments.

"Q. Your judgment is that there would be in all probability an inductive interference of telegraph lines because of the fact that they are grounded?"

"A. Yes, sir.

"Q. And that hazard could be avoided by moving your transmission line a sufficient distance away from the telegraph line?"

"A. That is correct."

The respondent supports its contention against the use of the route as applied for by introducing testimony of several witnesses, contending that to locate and maintain

a 13,200 voltage transmission line, paralleling its rails along said highway, would seriously interfere with the proper operation of its telegraph, telephone and signal wires. Mr. A. H. McKeen, signal engineer of the Union Pacific system, gave it as his opinion that a transmission line such as prayed for should be located at least 500 feet from the wires of respondent's line in order to eliminate interference. He cited two or three specific cases where high tension lines were located less than 100 feet from wires controlling signals on respondent's lines where interference had changed the workings of the blocks sufficiently to give a reverse signal from the one intended and that conditions of this kind brought about a very serious hazard to life and property. The witness was very insistent that to grant the prayer of applicant for a right-of-way along the Lincoln Highway, as indicated, for a transmission line of high voltage would create a condition upon respondent's wires that would make operating conditions unsafe and unreliable. Witness McKeen, on direct examination, testified, as follows (Transcript, pp. 49-50):

"A. The higher the voltage of course the greater the liability of induction troubles in any communicating circuit.

"Q. It would span a wider distance in parallel, would it?"

"A. Yes, sir.

"Q. How do you account then that they group all electric energy into that 500-foot space if it is less than 50,000 volts pressure?"

"A. Well, their table specifying feet takes a range of from 5,000 volts up to 50,000, then they step up—below 50,000 to 75,000 volts, 750 feet; 75,000 to 100,000 volts, 850 feet; 100,000 to 150,000, 1,000 feet; 150,000 to 200,000, 1,200 feet.

"Q. That would eliminate all interference?"

"A. Yes, sir.

"Q. As an electrical engineer do you think the distance away in parallel is the only consideration? Does the distance of parallel affect it?"

"A. No, those distances are fixed, as I see it, as a safe range where there would be no appreciable effect on communicating circuits. Of course there would be under certain conditions where unbalance would come on or during storms or things of that kind, I presume.

"Q. Would you have more danger of inductive interference in a 15-mile parallel than in a half-mile parallel, all other conditions being the same?"

"A. Yes, sir, very materially so.

"Q. They have eliminated that from their report, I presume?

"A. The distance — parallels are of course cumulative. One in itself for a short distance might not have any harmful effect, but we are forced to meet the conditions nowadays where power lines are being built throughout the country and each added mile, of course, adds to our troubles, the changes of interference."

Witness John Hilbert, telegraph and telephone engineer for respondent, testified that they had experienced numerous cases where their entire telegraph and telephone lines had been out of service for as much as one-half hour at a time, due to inductive interference, (Transcript, p. 52). He cited the instances of a high tension transmission line which parallels respondent's railway between Chapman and Central City under conditions similar to those that would prevail here if the transmission line were built where many instances of interference resulted. Witness testified at length as to similar conditions on respondent's line, both in Nebraska and other states, where interference was apparent. Mr. Frenzer, superintendent of telegraph, testified at length and was very positive as to the hazard which would apply were the applicant allowed to maintain the high tension transmission line paralleling respondent's line with less than 500 feet clearance. Several other witnesses testified at length corroborating the evidence given by engineers McKeen and Hilbert, that power lines of 13,200 volts should clear the wires of respondent company at least 500 feet in order to permit accurate service. It was quite clear to the writer of this opinion that there was merit enough in the respondent's contention to call for a very careful consideration of the situation before granting the prayer of applicant; so much so that it led to a personal investigation of the situation by going over the ground and making a close inspection of respondent's wire lines as to their location between North Platte and Brady. This investigation, together with the preponderance of the evidence as to interference, led the Commission to the conclusion that it would be wise to seek some other route on

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which to locate the transmission line. If an alternative route can be secured and the application amended, the Commission will give it prompt consideration. The respondent's lines are serving very important functions in the control of trains and in the transmission of important transcontinental messages and should not be interfered with by the building of high tension lines within a distance that would create interference. It is the judgment of the Commission that the distance as indicated for the line in question would not be sufficient to insure safety at all times for the working of respondent's wires, and that the prayer of the applicant should be dismissed.

ORDER.

It is, therefore, ordered by the Nebraska State Railway Commission, That the application of the villages of Maxwell and Brady for authority to construct an electric transmission line along and over the Lincoln Highway from North Platte to Maxwell and Brady be, and it hereby is, dismissed.

Made and entered at Lincoln, Nebraska, this third day of February, 1922.

In re APPLICATION OF THE BLOOMFIELD TELEPHONE COMPANY
FOR AUTHORITY TO PUBLISH AND COLLECT A SCHEDULE
OF RATES.

Application No. 4714.

Decided February 9, 1922.

Rates Authorized for Temporary Experimental Period.

FINDINGS.

This application is presented by the Bloomfield Telephone company of Bloomfield requesting authorization of certain schedule of rates. The Bloomfield Telephone company is one recently organized by J. H. Gesler and A. C. Grace, who have purchased the properties of the Union

Telephone Company which serves Bloomfield and community. The present organization, very recently perfected, is in the nature of a partnership although it is stated in the application that it is the intention to incorporate as soon as legal requirements can be complied with.

The organization of this company and this application are the results of strike conditions which have prevailed at Bloomfield since the issuance of an order by this Commission which authorized slightly increased rates at this exchange to the predecessor company. (Application No. 4422,* issued under date of February 28, 1921, effective April 1, 1921.) The new company requests, for an experimental period of six months, that it be authorized to publish and collect a schedule of rates in effect the same as the schedule collected by the predecessor company previous to the increase authorized by the Commission in the above-mentioned order.

The Commission is entirely familiar with conditions surrounding the furnishing of telephone service at Bloomfield, particularly as to financial requirements. Recent previous applications of the predecessor company have been given most careful thought and study and have thoroughly acquainted the Commission with some of the problems which the newly organized company will face. The Commission offers no objection to the Bloomfield company returning to the old rate schedule for the six-months' experimental period. In so doing it will be necessary for the company to practice the strictest of economies in both maintenance and operating expenditures.

Subscribers were previously enjoying twenty-four-hour service. It may be necessary to reduce this service. Reduction of operators may also be necessary, resulting in delayed service. In such matters officers of the company are given free range, subject only to complaint and investigation; nor will the Commission prescribe any arbitrary amounts to be set aside during this six-months' period for

* See Commission Leaflet No. 113, p. 1026

maintenance and depreciation. This will also be left to the management of the company for determination subject to one condition; the company's properties must be properly maintained before dividends on the value of the property can be paid. The first duty of a public utility is to furnish service and the Commission will not permit the company's treasury to be depleted through the payment of dividends, at the sacrifice of proper maintenance of the properties by which service is supplied.

Officers of the company are facing a real problem and the Commission is entirely disposed to allow them to solve the same in their own way. The Commission is very doubtful as to whether the rate schedule authorized herein will produce sufficient revenues but is willing that the experiment be given a fair trial. As previously stated, it will undoubtedly mean a reduction in the quantity and quality of service furnished.

ORDER.

It is, therefore, ordered by the Nebraska State Railway Commission, That the Bloomfield Telephone Company of Bloomfield be, and the same is hereby, authorized and directed, effective on one day's notice, to publish and collect, for a six-months' period as from March 1, 1922, the following schedule of rates:

	<i>Per Month</i>	
	<i>Gross</i>	<i>Net</i>
Business service, wall telephones	\$2 00	\$1 75
Business service, desk telephones.....	2 25	2 00
Residence service, wall telephones.....	1 50	1 25
Residence service, desk telephones.....	1 75	1 50
Rural service	1 50	1 25
Extension sets, residence.....	75	50
Extension sets, business.....	1 25	1 00
Extension bells		25
Loud ringing gongs.....		50

Net rates shall be charged for town service where bills are paid monthly on or before the tenth day of the month in which the service is given and on rural service when paid quarterly during the first month of the quarter in which the service is rendered.

It is further ordered, That said applicant company herein, during the effective period of this order, shall pay no dividends or other return unless upon proper authority from this Commission after application so to do.

Made and entered at Lincoln, Nebraska, this ninth day of February, 1922.

In re APPLICATION OF THE NORTH SALEM TELEPHONE ASSOCIATION FOR APPROVAL OF RATE SCHEDULE.

Application No. 4276.

Decided February 21, 1922.

Rate Collected Without Proper Authority Validated.

FINDINGS.

This application is presented by the North Salem Telephone Association of Dakota City requesting approval by the Commission of a certain rate schedule which it has been collecting without proper authority. The company is a small one furnishing service in the main to stockholders. However, the company has deviated slightly from its rule of service to stockholders only and is supplying service to a very few subscribers who are non-stockholders, collecting \$2.00 for business and \$1.50 for residence service. There are approximately 6 subscribers receiving service who are non-stockholders.

No objection to these rates has been made by any of the company's subscribers. Furthermore, the Commission believes them to be reasonable and justifiable. The schedule, accordingly, will be approved, subject to complaint and further investigation.

ORDER.

It is, therefore, ordered by the Nebraska State Railway Commission, That the following schedule of rates of the

North Salem Telephone Association of Dakota City be, and the same is hereby, approved:

	<i>Per Month</i>
Business service	\$2 00
Residence service	1 50

Made and entered at Lincoln, Nebraska, this twenty-first day of February, 1922.*

In re APPLICATION OF THE NORTHEASTERN TELEPHONE COMPANY FOR AUTHORITY TO PUBLISH INCREASED RATES.

Application No. 4652.

Decided February 21, 1922.

Increase in Rates Authorized—Amount Ordered Set Aside for Maintenance and Depreciation.

FINDINGS.

The Northeastern Telephone Company, with headquarters at Walthill, Nebraska, serves about 400 subscribers and maintains three small exchanges, Walthill, Winnebago and Rosalie. Its territory is circumscribed, the Missouri River being on the east and agricultural country on the west and immediately around the villages, being occupied principally by tenant farmers and Indians. Very few roads have been constructed in this part of the country. The country is hilly and rugged in a portion of the territory occupied by the rural lines which necessarily makes it expensive to maintain them. Although there are only about 400 subscribers using the telephones of the applicant it maintains three exchanges. This results in high operating costs per station served.

The company commenced business in this territory and the villages named about fifteen years ago. Its lines were

* On January 31, 1922, a gross rate of \$1.65, and net rate of \$1.40 collected for multi-party metallic line service at Albion and collected where no rate had been authorized for that class of service was validated on application of the *Munroe Independent Telephone Company* (No. 4702).

not substantially constructed originally and during all of its life it has been managed by a non-resident owner, which made it quite impossible to give proper supervision. The results of this operation during a major portion of its existence have been inadequate and unsatisfactory to the subscribers generally. Many complaints have been filed during the later years with the Commission. Several hearings and investigations were had, the manager pleading lack of funds and ill-health and it seemed almost impossible to get results satisfactory to the subscribers. During the year 1921 E. C. Hunt, an experienced telephone man, acquired the property and signified his intention of rebuilding the different exchanges, as well as the rural lines, provided adequate rates for service would be granted. After operating the property for a few months, in order to become acquainted with the conditions and its financial needs, the present owner made application to the Commission for a small advance to apply only to business and residence stations, as follows:

	<i>Present Rate</i>	<i>Increased Rate (Net)</i>
Business	\$2 00	\$3 00
Residence, private line.....	1 25	1 75
Residence, party line.....	1 00	1 50
Farm rate to remain as now.....	1 50	1 50
Switching, per month.....		50

It is asked that 10 cents be added to the switching charge and 25 cents to each of the other charges if payment is not made on or before the tenth of the month.

On this application a hearing was held at Walthill, Nebraska, on February 3, 1922, which was attended by many of the subscribers from the different towns, the town boards of the villages participating. Mr. Hunt, representing his company, admitted in evidence at this hearing that the physical condition of the exchanges and rural lines was very low and not such as is necessary to insure satisfactory service and that it would require the rebuilding of the exchanges and additions and betterments to the amount of \$10,000 to place the plant in good condition. Mr. Hunt

assured the Commission that he was willing to make the improvements if the rates applied for were granted. He testified that the rates now being collected by the several exchanges are not sufficient to pay the operating expenses and provide for interest and dividends on the amount now represented in the plant. The following showing, prepared by the accounting department of the Commission, taken from the reports of the company for a period of eleven months, discloses the financial condition resulting from the present rates and estimates for 1922 under the proposed rates. The estimated returns, as shown in this tabulation, from the new rate when applied will show a small surplus of \$256.77. The estimate is arrived at by using the present plant value. Additions and betterments to be made before the new rate applies will raise the present plant value sufficient to require more than this amount to take care of the added investment.

REVENUES

	<i>Actual Eleven Months of 1921</i>	<i>Estimates Full Year 1922 Under Old Rates</i>
Service revenues.....	\$7,510 05	\$8,192 78
Reduction anticipated due to decrease in number of stations.....		157 50
NET ANTICIPATED SERVICE REVENUES		\$8,035 28
Toll revenues.....	1,619 83	1,767 09
TOTAL REVENUES.....	\$9,129 88	\$9,802 37

EXPENSES

Allowance for maintenance and depreciation.....	\$3,079 89	\$3,000 00
Operators' wages.....	3,344 12	3,648 13
Other traffic expense.....	318 12	347 04
Salaries of officers.....	862 50	940 91
Salaries of clerks.....	906 37	988 77
Rents.....	840 00	916 36
General expense.....	341 25	372 27
Accrued taxes.....	165 00	180 00
Accrued interest.....	110 00	120 00
TOTAL EXPENSE.....	\$9,967 25	\$10,513 48
NET DEFICIT.....	\$837 37	\$711 11

Return of 8 per cent. on depreciated plant value of \$16,278.96 as found by engineering department in 1919. Used as basis for return because of absence of more recent data..... 1,302 32

TOTAL DEFICIT (ANTICIPATED SHOULD OLD RATES REMAIN EFFECTIVE).. \$2,013 43

ANTICIPATED REVENUES UNDER OLD AND PROPOSED RATES.

Number of Stations	Kind of Service	Old Rates	Monthly Revenues, Old Rates	Proposed Rates	Monthly Revenues Proposed Rates	Monthly Increase of Revenues Under Proposed Rates
112	Business.....	\$2 00	\$324 00	\$3 00	\$336 00	\$12 00
146	Residence (private).....	1 25	182 50	1 75	255 50	73 00
10	Residence (two-party).....	1 00	10 00	1 50	15 00	5 00
148	Farm.....	1 50	222 00	1 50	222 00	.....
416	TOTALS.....		\$638 50		\$828 50	\$190 00
Anticipated annual revenues.....			\$7,662 00		\$9,942 00	\$2,280 00
Deficit under old rates (brought down).....						2,013 43
NET SURPLUS FOR YEAR 1922 ANTICIPATED UNDER PROPOSED RATES.....						\$266 57

Manager Hunt, at the opening of the hearing, made the following statement, which, for all intents and purposes, is a contract with the subscribers of the Northeastern Telephone company:

"In our application for a new schedule of rates, we have tried to be reasonable; keeping in mind at all times that the patrons are to receive first-class service, but in order to furnish a dependable service, it will be necessary to give the exchanges a general rebuilding.

Walthill, when finished, will be practically an all-cable plant with P.O.D. distribution. This type of construction is considered to be the very best.

Winnebago will have a new switchboard, with some additional cable and a general overhauling to bring the plant up to first-class service condition.

The switchboard at Rosalie will also be discarded, as the service rendered through this board is undependable. The outside distribution is in need of some improvements in order to bring the service up to the standard.

The above improvements will cost \$10,000 or more, but regardless of cost, the improvements will be made, as stated. When finished, these plants will be as good as the best. The new rates are not to take effect until we have from \$2,000 to \$3,000 in new material on the ground and the reconstruction work started.

Under the proposed rates the net gain is not sufficient to pay a reasonable return on the money invested, but with the added improvements, the operating expenses should be somewhat reduced on account of the better construction. The materials that go into the upkeep of a system of this kind will eventually show some decline over the present prices.

With an improved service, we predict that in the course of a year or so, the public will realize our telephone service is dependable and when we gain the confidence of the public, our business should show a steady increase each year.

We submit these statements to support our application for an increase in rates and respectfully solicit your earnest cooperation."

There were no objections in testimony by the subscribers or the village officers interested against the proposed increases in rates as requested by applicant, but to the contrary many of the subscribers and village officers testified that they were not so much concerned as to what the rates should be if they represented a fair price for the service received. They also expressed a desire to cooperate with Manager Hunt in his effort to bring the physical condition of the exchange up to a standard that would insure dependable telephone service and expressed a willingness to have the rates increased if such increase would insure proper service. Under these circumstances the Commission feels that it should make an order providing for a schedule of rates that in its judgment will be sufficient to maintain the several exchanges and rural lines at a standard demanded by the subscribers.

ORDER.

It is, therefore, ordered by the Nebraska State Railway Commission, That the Northeastern Telephone Company be, and it hereby is, authorized to publish and collect the following schedule of rates for its exchanges now under consideration, viz.: Walthill, Winnebago and Rosalie, the said rate schedule to become effective upon due proof of completion of contemplated improvements:

	<i>Per Month</i>	
	<i>Gross</i>	<i>Net</i>
Business	\$3 25	\$3 00
Residence, private line.....	2 00	1 75
Residence, party line.....	1 75	1 50
Farm	1 75	1 50
Switching	60	50

NOTE: On business and residence service payment shall be made monthly on or before the tenth day of the month in which service is

rendered. Rural service shall be paid quarterly in advance during the first month of the quarter; switching service payable six months in advance, payable during the first month of the period. If payments are made as above stated the net rate for each service to apply; otherwise the gross rate shall be collected.

It is further ordered, That the Northeastern Telephone Company shall proceed to carry out its program of improvements and betterments as outlined by its manager, the work to commence with the exchange at Walthill, said improvements and betterments at all exchanges to be completed during the year 1922, the increased rates to apply to each exchange as it is completed.

It is further ordered, That the company shall set aside not less than \$3,000 per annum, this amount to be used for purposes of maintenance and depreciation in accordance with the rules of accounting prescribed by the Commission in its General Order No. 45,* and said amount to be used for no other purpose.

Made and entered at Lincoln, Nebraska, this twenty-first day of February, 1922.†

* See Commission Leaflet No. 88, p. 1358.

† On November 15, 1921, certain increases in rates were authorized at its Endicott exchange, *In re Lincoln Telephone and Telegraph Company* (No. 4584).

NEW YORK.

Public Service Commission.

In re HEARING ON MOTION OF COMMISSION AS TO RATES,
CHARGES AND RENTALS AND THE REGULATIONS AND PRACTICES AFFECTING THE RATES, CHARGES AND RENTALS OF
THE NEW YORK TELEPHONE COMPANY.

Case No. 377.

Decided March 3, 1922.

**Reserve for Depreciation Found in Excess of Requirements—Cities
and Towns of State Classified into Groups for Rate-Making
Purposes—Temporary Decrease in Rates Ordered
Pending Final Determination of Rates and
Charges.**

MEMORANDUM.

The evidence already submitted in this case has been carefully considered, and it appears to the satisfaction of the Commission that public interest requires certain reductions and readjustments in the rate schedules of the New York Telephone Company, and that these reductions are reasonable as immediate temporary decreases pending the final determination of this proceeding.

The Commission is of the opinion that the rates now put in effect are necessary at this time, not only on account of the downward price trend of all materials, the decreasing cost of money, the daily readjustments in the labor market, the effort toward economy manifested by all private business enterprises, but also because the Commission is convinced that the sums set aside for annual expenses of depreciation are largely in excess of what is necessary, and in consequence the accumulated depreciation reserve is increasing more rapidly than conditions warrant.

The Commission believes that the company's estimates of the rates of depreciation are too high and are not substantiated by the evidence. The testimony indicates that

in a telephone property with a rate of growth similar to that of the New York Telephone Company, the depreciation reserve tends to become stabilized at approximately 30 per cent. of the cost of the depreciable property. The company's depreciation reserve apportioned to New York State now stands at \$69,596,739, whereas its total fixed capital in New York State, including land and intangible items, is \$229,427,813, producing a ratio of more than 30 per cent. But when this company was brought under the supervision of the Public Service Commission twelve years ago, the ratio of its depreciation reserve to fixed capital was only 10.7 per cent. In other words, there has been accumulated through charges to revenue since 1910 more than \$15,000,000 of depreciation moneys that should have been set aside out of revenue prior to 1910, and is now presumably included in the company's surplus. It must be clear that depreciation rates which have enabled the company in twelve years to make up a depreciation deficiency of \$15,000,000 have been too high and should now be reduced.

The company estimates the necessary expense of depreciation for 1922 to be \$12,800,000. On the facts presented, we believe \$10,000,000 is sufficient.

The company also estimates that its publicity and advertising expenses for 1922 should be \$300,000. Reasonable public announcements of changes in telephone equipment or in character of service, issuance of directories, and necessary instruction in the use of telephone mechanism, should be given to the public. But advertising, in order to justify rate increases, either contemplated or in effect, to set forth attractiveness of employment in the company's service, or to market the company's securities, should not be charged to subscribers. If expenses of the latter class mentioned were paid from the company's surplus, no criticism could be made. We believe that this expense should be materially reduced.

The dividend history of this company, an average annual return of 8.17 per cent., during the past twenty-five years.

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and the accumulation of surplus (undivided profits) of \$36,579,446, during the same period, make it apparent that the company has been generously treated in the matter of rates.

We believe that the entire schedule of expenses of the New York Telephone Company can undergo reasonable revision, with a view to reaching a basis of expenditure fair to the public. The telephone company should make this revision. If this is done it will not interfere with the company's securing a reasonable return upon its investment. The company has shown an unwillingness to abandon any of its costly methods of doing business, no matter how burdensome to subscribers who furnish the revenue necessary to cover all expenditures. The situation which this and every other public utility must face is that in a period of increased costs it is its duty to adjust expenditures to meet these costs rather than to expect to exact from the public the full measure of such costs by means of increased rates. In order to meet the economic conditions which were the outgrowth of the war, the company was permitted to increase its rates everywhere throughout the State. With the exception of the reductions made by this Commission in the rates in New York City, and in Buffalo, there has been no change from the rates set up in accordance with these advances. We are now in a period of economic readjustment, which is entailing hardships upon the public as a whole. It is not reasonable that a public utility such as the New York Telephone Company should, during this period of readjustment, continue to enjoy practically the full measure of the advances that were allowed to it as a result of war conditions. The reductions ordered are, in the judgment of this Commission, demanded in the public interest.

The Commission has endeavored in the accompanying orders to establish rates which shall be uniform in all exchange areas of the same approximate telephonic development, demand and plant requirements, taking into con-

sideration the character and value of the service demanded by subscribers and furnished by the company; and has classified the different municipalities and exchanges in accordance with such requirements. The company, or any municipality, may apply for a modification of these classifications on or before April 15, 1922.

It follows that the accompanying orders should be entered, to be effective April 1, 1922, and thereafter until the final determination of this proceeding, or until the further order of the Commission.

ORDER.

The Public Service Commission having entered upon hearings as to rates, charges and rentals and the regulations and practices affecting the rates, charges and rentals of the New York Telephone Company within the State of New York:

And it appearing to the satisfaction of the Commission that public interest requires a change in the rates, charges and rentals for telephone service charged by the New York Telephone Company within the State of New York, temporarily and pending a final determination of the rates, charges and rentals to be thereafter demanded, exacted or collected by said New York Telephone Company;

Now, therefore, under the provisions of the Public Service Commission Law,

It is ordered, (1) That all of the towns, cities and villages hereinafter named in which the said New York Telephone Company operates exchanges, and all of the telephone exchanges therein, are hereby for the purpose of this order, and for the purposes of the temporary rates established by this order, classified and divided into groups as in this order, hereinafter stated, and that the rates, charges and rentals to be hereafter demanded, exacted, or collected by the said New York Telephone Company shall be as in this order stated, all said rates, charges and rentals to take effect and be in force on and after April 1, 1922, and to

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remain in force and effect pending a final determination of the rates, charges and rentals to be thereafter demanded, exacted or collected by said New York Telephone Company, or until the further order of this Commission. All rates, charges and rentals applying to any and all other service furnished by said New York Telephone Company to be and remain as stated in the company's schedules of rates, rentals and charges for service.

The grouping and classification of said towns, cities and villages, and the exchanges operated therein, and the temporary rates, charges or rentals to be demanded, exacted or collected therein, shall be as follows, and payable monthly in advance :

GROUP I.

Arkport	Fabius	Porters Corners
Barker	Greenwood Lake	Selden
Bliss	Hermitage	Sharon Springs
Campbell	Kendall	Shokan
Carmel	Kent Cliff	South Onondaga
Cayuga	Newfield	South Salem
Center Brunswick	North Clove	Stanfordville
Cicero	Osceola	Varysburg
Commack	Owasco	Waterport
Elba	Parish	Woodstock
Enfield Center	Phoenicia	Yorktown Heights
Esopus	Pleasant Valley	

BASIC AREA RATES.

	<i>Per Month</i>
Business telephone, one-party, unlimited service.....	\$3 00
Residence telephone, one-party, unlimited service.....	2 25
Business telephone, four-party, unlimited service.....	2 25
Residence telephone, four-party, unlimited service.....	2 00
Rural service, business telephone.....	2 25
Rural service, residence telephone.....	2 00

GROUP II.

Alden	East Quogue	Pine Hill
Altamont	East Syracuse	Portville
Amagansett	Fayetteville	Ransomville
Amenia	Floral Park	Ronkonkoma
Angola	Forestville	Rosendale
Averill Park	Garden	Sackett Harbor
Avoca	Garrison	Sag Harbor
Bayport	Groton	Sempronius
Bolton	Highland Falls	Shoreham
Brentwood	High Falls	Silver Creek
Bridgehampton	Holland	Smithtown
Camden	Horseheads	South Dayton
Canaseraga	Hyde Park	Springville
Canisteo	Interlaken	Trumansburg
Castleton	Jonesville	Tully
Central Islip	Lake George	Union Springs
Chatham	Lewiston	Valley Falls
Cleveland	Liverpool	Voorheesville
Clinton Corners	Mahopac	Warrensburg
Constantia	Moravia	Water Mill
Croton Falls	Orchard Park	Weedsport
Deposit	Patterson	Wingdale
Dover Plains	Philmont	Youngstown

BASIC AREA RATES.

	<i>Per Month</i>
Business telephone, one-party, unlimited service.....	\$3 50
Residence telephone, one-party, unlimited service.....	2 50
Business telephone, four-party, unlimited service.....	2 75
Residence telephone, four-party, unlimited service.....	2 00
Rural service, business telephone.....	2 50
Rural service, residence telephone.....	2 00

NOTE: In all exchanges having more than one rate zone, the same rate differences now existing between zones shall apply.

GROUP III.

Akron	Good Ground	Newfane
Amityville	Goshen	New Paltz
Arcade	Gowanda	North Collins
Attica	Greenport	Northport
Baldwinsville	Hamburg	North Salem
Bath	Hamilton	Orient
Barneveld	Hicksville	Pawling
Bedford Village	Highland	Pearl River
Bellport	Holley	Peconic
Brewster	Hoosick Falls	Port Jefferson
Burnt Hills	Islip	Quogue
Canastota	Jamesport	Riverhead
Center Moriches	Jordon	Sayville
Chappaqua	Katonah	Setauket
Cherry Creek	Kings Park	Shelter Island
Clarksville	Liberty	Skaneateles
Clintondale	Long Beach	Southold
Clinton	Lyndonville	St. James
Cobleskill	Marlboro	Stony Brook
Cold Spring	Massapequa	Wappinger Falls
Dolgeville	Mattituck	Watkins
Easthampton	Mexico	Westbury
Eastport	Middleport	West Hampton
Eden	Millbrook	Williamsville
Ellenville	Milton	Wilson
Farmingdale	Montour Falls	Woodmere
Fleischmanns	Oakfield	Yaphank
Gasport		

BASIC AREA RATES.

	<i>Per Month</i>
Business telephone, one-party, unlimited service.....	\$3 75
Residence telephone, one-party, unlimited service.....	2 75
Business telephone, two-party, unlimited service.....	3 35
Residence telephone, two-party, unlimited service.....	2 50
Business telephone, four-party, unlimited service.....	3 00
Residence telephone, four-party, unlimited service.....	2 10
Rural service, business telephone.....	2 75
Rural service, residence telephone.....	2 10

NOTE: Two-party line service may be furnished subscribers in the exchanges in this group at the option of the company at a rate of not in excess of the one set forth.

In all exchanges having more than one rate zone, the same rate differences now existing between zones shall apply.

GROUP IV.

Albion	Greenwich	Patchogue
Babylon	Hastings	Penn Yan
Ballston	Haverstraw	Piermont
Barre Center	Huntington	Pleasant Valley
Bay Shore	Lindenhurst	Pt. Washington
Beacon	Manhasset	Roslyn
Blue Point	Medina	Saugerties
Catskill	Mt. Kisco	Schuylerville
Cold Spring Harbor	Nanuet	Southampton
Congers	New City	Spring Valley
Derby	New Hartford	Suffern
East Aurora	Nyack	Valley Stream
Endicott	Owego	Whitesboro
Great Neck	Oyster Bay	Ulster Park

BASIC AREA RATES.

	<i>Per Month</i>
Business telephone, one-party, unlimited service.....	\$4 25
Residence telephone, one-party, unlimited service.....	3 00
Business telephone, two-party, unlimited service.....	3 65
Residence telephone, two-party, unlimited service.....	2 75
Business telephone, four-party, unlimited service.....	3 25
Residence telephone, four-party, unlimited service.....	2 25
Rural service, business telephone.....	3 00
Rural service, residence telephone.....	2 25

NOTE: In all exchanges having more than one rate zone, the same rate differences now existing between zones shall apply.

GROUP V.

Allegany	Homer	Oswego
Batavia	Hornell	Peekskill
Briarcliff	Hudson	Portchester
Claverack	Ilion	Rockville Center
Corning	Irvington	Rome
Cortland	Lancaster	Rye
Dobbs Ferry	Little Falls	Salamanca
Dunkirk	Lockport	Saratoga Springs
Fayette	Lynbrook	Seneca Falls
Frankfort	Mamaroneck	Sloatsburg
Freeport	McGraw	Tarrytown
Garden City	Mechanicville	Tonawanda
Geneva	Olean	Waterloo
Glen Cove	Oneida	Wanakah
Hempstead	Park (New Rochelle)	Waverly
Herkimer	Ossining	Wantagh

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BASIC AREA RATES.

	<i>Per Month</i>
Business telephone, one-party, unlimited service.....	\$5 25
Residence telephone, one-party, unlimited service.....	3 25
Business telephone, two-party, unlimited service.....	4 25
Residence telephone, two-party, unlimited service.....	2 85
Business telephone, four-party, unlimited service.....	3 75
Residence telephone, four-party, unlimited service.....	2 35
Rural service, business telephone.....	3 10
Rural service, residence telephone.....	2 35

NOTE: Business, four-party line service may be furnished subscribers in the exchanges in this group at the option of the company at a rate not in excess of the one set forth.

In all exchanges having more than one rate zone, the same rate differences now existing between zones shall apply.

GROUP VI.

Amsterdam	Kingston
Argyle	LaSalle
Auburn	Newburgh
Brookville	Niagara Falls
Elmira	Poughkeepsie
Elmsford	Ramapo Hills
Fort Edward	Scarsdale
Glens Falls	Watertown
Hudson Falls	White Plains
Kattskill Bay	

BASIC AREA RATES.

	<i>Per Month</i>
Business telephone, one-party, unlimited service.....	\$6 25
Residence telephone, one-party, unlimited service.....	3 50
Business telephone, two-party, unlimited service.....	5 25
Residence telephone, two-party, unlimited service.....	3 00
Residence telephone, four-party, unlimited service.....	2 50
Rural service, business telephone.....	3 25
Rural service, residence telephone.....	2 50

NOTE: In all exchanges having more than one rate zone, the same rate differences now existing between zones shall apply.

GROUP VII.

Binghamton	New Rochelle
Bronxville	Oakwood
Hillcrest	Pelham
Johnson City	Tuckahoe
Mt. Vernon	Yonkers
Larchmont	

BASIC AREA RATES.

	<i>Per Month</i>
Business telephone, one-party, unlimited service.....	\$7 00
Residence telephone, one-party, unlimited service.....	3 75
Business telephone, two-party, unlimited service.....	6 00
Residence telephone, two-party, unlimited service.....	3 25
Residence telephone, four-party, unlimited service.....	2 65
Rural service, business telephone.....	3 40
Rural service, residence telephone.....	2 65

GROUP VIII.

Cohoes	Utica
North Troy	Waterford
Schenectady	Watervliet
Troy	

BASIC AREA RATES.

	<i>Per Month</i>
Business telephone, one-party, unlimited service.....	\$8 00
Residence telephone, one-party, unlimited service.....	4 00
Business telephone, two-party, unlimited service.....	6 25
Residence telephone, two-party, unlimited service.....	3 40
Residence telephone, four-party, unlimited service.....	2 75
Rural service, business telephone.....	3 60
Rural service, residence telephone.....	2 75

GROUP IX.

Main	James
Albany East	Syracuse Warren
West	Montgomery

BASIC AREA RATES.

	<i>Per Month</i>
Business telephone, one-party, unlimited service.....	\$8 50
Residence telephone, one-party, unlimited service.....	4 25
Business telephone, two-party, unlimited service.....	6 50
Residence telephone, two-party, unlimited service.....	3 50
Residence, telephone, four-party, unlimited service.....	2 85
Rural service, business telephone.....	3 75
Rural service, residence telephone.....	2 85

GROUP X.

Buffalo

BASIC AREA RATES.

Individual line, business and residence:	<i>Per Month</i>
Eighty or less.....	\$4 00
Next 120, each.....	05
Next 50, each.....	04
All over 250, each.....	03
Residence telephone, one-party, individual line, unlimited..	4 75
Residence telephone, two-party, unlimited.....	3 75
Four-party, residence only:	
Sixty or less.....	2 75
Next 40, each.....	04
All over 100, each.....	03
Outside area, four-party line, business and residence:	
Seventy or less.....	3 25
Next 30, each.....	04
All over 100, each.....	03

GROUP XI.

New York City.

(Comprising the Boroughs of Manhattan, The Bronx, Brooklyn, Queens and Richmond.)

The rates for this group shall be as prescribed in the order of March 3, 1922, in Case No. 7720,* upon terms and conditions as therein set forth.

SPECIAL GROUP A.

Company's present rates for these exchanges will apply.

Bayside	Solvay
Blue Stores	Syosset
Ithaca	Tuxedo
Lycoming	Wheatley Hills
Prospect	

Ordered, (2) This order is made without prejudice to the conditions and requirements of any and all bonds heretofore given by the said New York Telephone Company in any and all proceedings involving rates, charges and rentals, applicable to any or all of the various exchanges

* See *infra*, page 1060.

listed herein, and without prejudice to any obligations of the New York Telephone Company, or its sureties, on any bonds heretofore given in any proceeding and now in force, to secure repayments to subscribers of sums paid for service under order therein of the former Public Service Commission, Second District, State of New York, or of this Commission, in excess of the rates, charges or rentals which may be fixed therein by final determination of the Commission as the rates, charges or rentals to be demanded, exacted or collected for service to any such subscribers.

Ordered, (3) That the New York Telephone Company, and any and all municipalities affected by this order, may apply to the Commission for a modification of the classifications hereinbefore made, by filing application, in writing, stating the reasons therefor, at the office of the Commission at Albany, New York, on or before April 15, 1922.

March 3, 1922.

In re COMPLAINT OF NEW YORK TELEPHONE COMPANY IN
RESPECT TO INCREASING RATES, CHARGES, TOLLS AND
RENTALS TO BE CHARGED BY IT FOR TELEPHONE SERVICE
IN NEW YORK CITY.

Case No. 7720.

Decided March 3, 1922.

Decrease in Rates Ordered Pending Final Determination of Rates and Charges.

ORDER.

On the sixteenth day of June, 1921, the Commission made and filed its order * whereby temporary decreases in rates of New York Telephone Company for exchange service in New York City were authorized, effective July 1, 1921, pending a final determination of the rates to be thereafter demanded by the said company upon terms, conditions and

* See Commission Leaflet No. 116, p. 194.

safeguards as therein stated. Thereafter the Commission entered upon hearings as to rates, charges and rentals and the regulations and practices affecting the rates, charges and rentals of the said company within the State of New York; and it appearing now to the satisfaction of the Commission that public interest requires a further change in the rates, charges and rentals for telephone service charged by the said company within the city of New York; and the Commission having decided to authorize an immediate temporary decrease in the rates, charges or rentals established in and by said order * of June 16, 1921, pending a final determination of the rates, charges or rentals to be thereafter demanded, exacted or collected by such corporation;

Now, therefore, upon the terms, conditions and safeguards hereinafter stated in this order,

It is ordered, That the first ordering clause of said order * of June 16, 1921, be, and the same hereby is, amended and modified to read as follows:

Ordered, That the aforesaid order † made and filed herein by the Public Service Commission, Second District, on the seventeenth day of March, 1921, be modified and that, pending the further continuation of this proceeding and without affecting the final determination thereof this Commission does hereby consent and authorizes that, on and after April 1, 1922, and until its further order in the premises, the rates of the said New York Telephone Company for exchange telephone service in the city of New York, shall be temporarily determined by the elimination of the 8 per cent. deduction specified in the aforesaid order‡ of the Public Service Commission, Second District, dated September 16, 1919, and by the addition, after such elimination, of 5 per cent. only, instead of 20 per cent. as heretofore ordered on March 17, 1921,† to the rates and charges for exchange telephone service and facilities determined and fixed by the aforesaid order§ of the Public Service Commission, Second District, dated March 30, 1915; without prejudice, however, to the conditions and requirements set forth in the aforesaid order of March 17, 1921, as to the bond of the said New York Telephone Company

* See Commission Leaflet No. 116, p. 194.

† See Commission Leaflet No. 113, p. 1061.

‡ See Commission Leaflet No. 95, p. 1664.

§ See Commission Leaflet No. 41, p. 1217.

and its surety, the American Telephone and Telegraph Company, and without prejudice to any obligations under said bond now in force to secure the repayment, with interest at 6 per cent., to subscribers in the city of New York, of any amounts paid by said subscribers from and after April 1, 1921, under the aforesaid order* of March 17, 1921; and upon condition that the New York Telephone Company shall repay to each and every subscriber, all sums paid for service from and after June 30, 1921, in excess of the rate or charges which may be fixed by a final determination herein by the Commission, of the rates or charges to be demanded, exacted or collected for service to any such subscriber.

It is further ordered, That this order shall be without prejudice to any obligation under the bond now in force to secure a repayment to each and every subscriber of all sums paid for service from and after June 30, 1921, in excess of the rate or charges which may be fixed by a final determination herein by the Commission which bond was filed pursuant to the requirements of said order † of June 16, 1921, by New York Telephone Company with American Telephone and Telegraph Company as surety.

It is further ordered, That the said New York Telephone Company file with this Commission a bond or undertaking with the American Telephone and Telegraph Company as surety, approved as to form and manner of execution by this Commission, providing for the repayment to each and every subscriber of all sums paid for service on and after April 1, 1922, in excess of the rates or charges which may be fixed by a final determination herein by this Commission of the rates or charges to be demanded, exacted or collected by the said New York Telephone Company for service to any such subscriber.

March 3, 1922.

* See Commission Leaflet No. 113, p. 1061.

† See Commission Leaflet No. 116, p. 194.

OHIO.

The Public Utilities Commission.

In re PETITION OF THE ELYRIA TELEPHONE COMPANY AND THE OHIO BELL TELEPHONE COMPANY FOR SUCH CONSENT AND APPROVAL AS MAY BE NECESSARY TO PERMIT THEM TO RESPECTIVELY PURCHASE AND SELL CERTAIN TELEPHONE PROPERTY AND TO ENTER INTO CONTRACTS FOR THE INTERCHANGE OF TOLL BUSINESS.

Decided February 10, 1922.

Sale and Purchase of Property Authorized — Present Rates of Purchaser Continued During Period of Unification — Physical Connection Between Systems Authorized.

ORDER.

The applicants herein having heretofore, upon the twenty-third day of July, 1921, filed their joint application asking the consent to and approval, by this Commission, of the sale, by The Ohio Bell Telephone Company, and the purchase by The Elyria Telephone Company, of the local exchange property of said The Ohio Bell Telephone Company in and about the city of Elyria, Ohio, and certain toll pole lines and circuits in Lorain County, Ohio, and of the making and entering, by said applicants, of contracts, providing, among other things and in chief, for the establishment of a physical connection between applicants' respective systems and the interchange of toll service thereby; and the Commission having, thereupon, in contemplation of its compliance with the provisions of Section 614-61, General Code of Ohio, began the inventorying and appraisal of the property involved in said matter;

Come now the said applicants and represent and show to the Commission that such emergency has arisen and now exists, occasioned by the actual wrecking of the building occupied by said The Ohio Bell Telephone Company with its central office, by the owner thereof, upon this date part

thereof has been removed and the destruction of the side walls begun — to permit of the erection upon the site, by the owner, of a modern bank and office building, as to require the making and entering of an emergency order herein to preserve to the city of Elyria, Ohio, and its citizens and the public, the service, local and long distance, of said The Ohio Bell Telephone Company;

And it appearing that this Commission heretofore, in its Proceeding No. 722,* found and ascertained the value of the several classes and kinds of property of said The Elyria Telephone Company used and useful for the convenience of the public in the furnishing of telephonic service, and of said property as a whole, as of December 27, 1915, to be: reproductive value, \$234,498.89; present value, \$193,230.59, which valuation, as a rate-making basis, was, by the Commission, in said Proceeding No. 722, found to fully justify the schedule of rates, charges, tolls and rentals now maintained and followed by said The Elyria Telephone Company; and it appearing, further, from the pleadings and exhibits filed herein, that, for purchase and sale purposes, the property herein sought to be sold and conveyed by The Ohio Bell Telephone Company is worth at least the sum of \$30,000, the agreed consideration to be passed therefor, and it appearing, further, that the immediate consolidation of the properties of the applicants in the Elyria, Ohio, service area will promote the public convenience, and that the public thereby will be furnished adequate service for a reasonable and just rate, rental, toll or charge therefor, the Commission is satisfied that, in view of the emergency as hereinbefore disclosed by the applicants, its consent and authority for such sale and purchase of property and the establishment of said proposed physical connection and interchange of toll service thereby, should be granted, conditioned upon the immediate unification of the properties of applicants in the Elyria, Ohio, service area and the establishment and maintenance, for the furnishing of uni-

* See Commission Leaflet No. 63, p. 761.

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fied service until the same shall be changed pursuant to law, of the present schedule of rates, charges, tolls and rentals of said The Elyria Telephone Company.

The Commission, therefore, for purchase and sale purposes, and the making of the following emergency order herein, finds and ascertains the value of the property of the applicants in the Elyria, Ohio, service area, upon which the rates, charges, tolls and rentals for unified service are to be based, to be the sum of the aforesaid valuation, as of December 27, 1915, of the property of said The Elyria Telephone Company, and, as the value of the said property, herein to be authorized to be sold by said The Ohio Bell Telephone Company, at least the sum of \$30,000.

And the Commission, coming now to find and determine a schedule of reasonable and just rates, rentals, tolls and charges for local exchange service within the Elyria, Ohio, service area, as furnished by said The Elyria Telephone Company as the sole owner and operator of all telephone facilities within such area, and having, in said Proceeding No. 722 * aforesaid, upon the basis of said valuation of the property of said company, found and determined the present schedule of rates, charges, tolls and rentals of said company to be just and reasonable and lawful, further finds and determines that, until changed pursuant to law, the said present schedules of rates, charges, tolls and rentals of said The Elyria Telephone Company is, and will be, just and reasonable for the furnishing of local exchange telephonic service in said area, as aforesaid.

It is, therefore, ordered, That said The Ohio Bell Telephone Company be, and hereby it is, authorized to sell to The Elyria Telephone Company, its local exchange property in and about the city of Elyria, Ohio, and certain toll pole line and circuits in Lorain County, Ohio, all as more particularly described in a statement, identified as Exhibit A appended to the application herein, which exhibit hereby is made a part of this order by reference; and said The Elyria Telephone Company hereby is authorized to pur-

* See Commission Leaflets No. 63, p. 761, and No. 65, p. 1322.

chase and acquire the same, and to pay therefor the agreed consideration of \$30,000.

It is further ordered, That, immediately upon the acquisition of said property, said The Elyria Telephone Company be, and hereby it is, directed and required to forthwith consolidate and unify its telephone properties in the Elyria, Ohio, service area.

It is further ordered, That upon the acquisition of said property and, until the same be changed pursuant to law, said The Elyria Telephone Company may maintain, impose, charge and collect for the furnishing of local exchange telephonic service in the Elyria, Ohio, service area by means of its present property and the property herein authorized to be acquired, consolidated and unified as herein required, rates, charges, tolls and rentals not greater than nor in excess of the rates, charges, tolls and rentals hereinbefore found to be just and reasonable.

It is further ordered, That said applicants be, and hereby they are, further authorized to establish a physical connection between their respective systems and to interchange toll service thereby.

It is further ordered, That, forthwith upon the exercise of the authority herein granted, said The Ohio Bell Telephone Company withdraw its schedule of rates and charges, rules and regulations for the furnishing of local exchange service in and about the city of Elyria, Ohio, and said parties file with this Commission schedules of rates, charges, tolls, rules and regulations governing the furnishing of said interchange toll service.

It is further ordered, That the finding as to service, hereinbefore set forth, shall not be binding upon this Commission in any future proceeding involving the matter of the service of said The Elyria Telephone Company.

And, this order having been made and entered as an emergency order,

It is further ordered, That the authority herein granted may be exercised from and after the date hereof.

Dated at Columbus, Ohio, this tenth day of February, 1922.

In re APPLICATION OF THE FAYETTE TELEPHONE CO. 1067
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In re APPLICATION OF THE FAYETTE TELEPHONE COMPANY
FOR AUTHORITY TO ISSUE AND DISPOSE OF CAPITAL STOCK.

No. 2434.

Decided February 20, 1922.

**Issue of Stock for Improvements Within State Authorized—Applica-
tion to Issue Additional Stock for Improvements in Another
State Denied.**

ORDER.

This day, it appearing to the Commission from the verified allegations in said application and the sworn statements and exhibits filed in connection therewith, and other documentary evidence submitted, that the taking of oral testimony herein is unnecessary, this matter came on for consideration upon the application of The Fayette Telephone Company, (a corporation duly organized and existing under and by virtue of the laws of the State of Ohio, and engaged in the telephone business in the States of Ohio and Michigan), asking the consent and authority of this Commission to issue its common capital stock of the par value of \$2,500, the proceeds arising from the sale thereof to be used to provide certain additions, extensions and improvements to its facilities.

The Commission, being fully advised in the premises, finds from the pleadings and exhibits filed herein and its independent inquiry and investigation thereupon, that the applicant now has under contract or in contemplation, certain additions, extensions and improvements to its facilities within the State of Ohio, the cost of which has been estimated at the sum of \$2,000, and that the issue of applicant's common capital stock of the par value of \$2,000 is reasonably required and the money to be procured thereby necessary for the construction, completion, extension and improvement of its facilities as aforesaid, and is satisfied that consent and authority for the issue and disposition of applicant's common capital stock of the par value of \$2,000 should be granted.

It is, therefore, ordered, That said The Fayette Telephone Company be, and hereby it is, authorized to issue its common capital stock of the par value of \$2,000 and that said capital stock be sold for the highest price obtainable but not less than the par value thereof.

It is further ordered, That the proceeds arising from the sale of said capital stock be devoted to and used for the payment of the cost of certain contracted or contemplated additions, extensions and improvements to applicant's facilities within the State of Ohio, and for no other purpose whatsoever.

It is further ordered, That the applicant make verified report to this Commission semi-annually, within fifteen days after the close of each calendar, semi-annual period, of the issue and disposition of said capital stock and, in reasonable detail, the expenditure of the proceeds thereof pursuant to the terms and conditions of this order.

And it appearing, further, that the applicant proposed to issue the balance of said capital stock, viz: of the par value of \$500 for the purpose of providing certain additions, extensions and improvements to its facilities in the State of Michigan, and that, under the law in such case made and provided, an inter-state utility shall not be required to secure authority for the issue of its capital stock for the purpose of constructing, extending, completing and improving its facilities outside of this State,

It is, therefore, further ordered, That said application, insofar as it asks the consent and authority to issue said additional common capital stock, be, and hereby the same is, denied.

Dated at Columbus, Ohio, this twentieth day of February, 1922.

In re PROPOSED INCREASED RATES OF CENTRAL UNION TELEPHONE COMPANY FOR LOCAL EXCHANGE SERVICE AT XENIA.

Advanced Utility Rate Proceeding No. 34.

Decided March 1, 1922.

Proposed Rates Made Effective Under Bond Found Excessive — Former Rates Continued in Effect — Refund of Excess Ordered.

The Commission having heretofore, by order duly made and entered herein, upon the complaint and protest of the Chamber of Commerce of the city of Xenia, Ohio, suspended the going into effect of the proposed increased rates for local exchange telephonic service at Xenia, Ohio, contained in a schedule, designated P. U. C. O. No. 8, filed by Central Union Telephone Company (now The Ohio Bell Telephone Company by virtue of the order * of this Commission consenting to and authorizing the sale, by the said Central Union Telephone Company, and the purchase by said The Ohio Bell Telephone Company, of the property in Ohio of the said Central Union Telephone Company), to become effective November 1, 1920, (which proposed rates were thereafter collected under authority of an undertaking duly filed herein), and entered upon a hearing and investigation to determine the propriety of said increased rates;

This day, after full hearing, due notice of the time and place of which was given pursuant to law, and argument by counsel, this matter came on for final consideration, and the Commission, being fully advised in the premises, and taking into consideration the value, as legally found and determined by this Commission in Proceeding No. 2097, (reproductive, \$196,564.98; present, \$157,575.82 as of September 30, 1920), of respondent's property used and useful for the convenience of the public in the furnishing of service in the Xenia, Ohio, service area, and estimating its

* See Commission Leaflet No. 110, p. 1957.

operating revenues for a period of one year, based upon the experience for the nine months ended September 30, 1921, (when said suspended schedule of rates and charges was being collected under bond, as aforesaid) at the sum of \$67,354.27, its operating expenses, including local, but not federal income, taxes, for the same period, upon the same basis, at the sum of \$43,046.52, and allowing an appropriation for the depreciation reserve from the net income on the basis of 5 percentum of the aforesaid reproductive value of said property, or the sum of \$10,331.86, the Commission finds that the net earnings available for interest and dividends exceed a reasonable rate upon the aforesaid present value of respondent's said property, and that, therefore, the said schedule of rates, charges, rentals and tolls providing such excessive return is unjust, unreasonable, excessive and unlawful.

The Commission, again taking into consideration the aforesaid valuation of respondent's said property, and estimating its operating revenue for a period of one year, based upon the application of the rates, charges, tolls and rentals set forth in respondent's schedule, P. U. C. O. No. 7, sought to be superseded by the schedule herein suspended and under investigation, to respondent's actual experience for said nine months ended September 30, 1921, at the sum of \$62,032.27, its operating expenses for the same period, upon the same basis, at the sum of \$42,743.17, and allowing the aforesaid depreciation charge, finds that the net earnings available for interest and dividends afford a reasonable rate upon the aforesaid present value of respondent's said property; and that, therefore, the said schedule of rates, charges, rentals and tolls providing such reasonable return is just, reasonable and lawful.

It is, therefore, ordered, That said The Ohio Bell Telephone Company be, and hereby it is, notified, directed and required to cease and desist from maintaining, imposing, charging and collecting, or attempting to maintain, impose, charge and collect the rates, charges, tolls and rentals for the furnishing of telephonic service in the Xenia, Ohio.

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service area hereinbefore found and determined to be unjust, excessive, unreasonable and unlawful.

It is further ordered, That said The Ohio Bell Telephone Company be, and hereby it is, further notified, directed and required to establish, effective as of November 1, 1920, and to impose, charge and collect for the furnishing of telephonic service in the Xenia, Ohio, service area, rates, charges, tolls and rentals not greater than, nor in excess of the rates, charges, tolls and rentals hereinbefore found and determined to be just, reasonable and lawful.

It is further ordered, That said The Ohio Bell Telephone Company be, and hereby it is, further notified, directed and required to refund to its subscribers and the public the difference between the rates, charges, tolls and rentals it has collected since the first day of November, 1920, for the furnishing of telephonic service in the Xenia, Ohio, service area and the rates, charges, tolls and rentals hereinbefore found and determined to be just, reasonable and lawful; such refunds to be made, within thirty days, in cash to those parties no longer subscribers for its service in said service area, and by credit upon current bills, to the extent of such current bills and until such repayment is fully made, to its subscribers in said service area who have been paying such advanced rates and charges.

Dated at Columbus, Ohio, this first day of March, 1922.

In re JOINT PETITION OF THE OHIO BELL TELEPHONE COMPANY AND THE OHIO STATE TELEPHONE COMPANY FOR CONSENT TO AND APPROVAL OF CONSOLIDATION OF SAID COMPANIES UNDER THE NAME OF THE OHIO BELL TELEPHONE COMPANY.

No. 2367-S2.

Decided March 1, 1922.

Value Determined — Rates Established for Furnishing Unified Service.

ORDER.

This day, after full hearing, due notice of the time and place of which was given to all parties in interest, this matter came on for further consideration upon the supplemental application of The Ohio Bell Telephone Company praying for such further and supplemental order herein as will fix and prescribe a schedule of maximum rates, charges, tolls and rentals to be charged for the furnishing of unified service in the village of Roseville, Ohio; and the evidence offered at said hearing.

The Commission, being fully advised in the premises, finds:

From the testimony and exhibits offered and introduced at said hearing, its independent inquiry and investigation thereupon, and for the purpose of making this supplemental order herein, that the value of the property of said The Ohio Bell Telephone Company, used and useful for the convenience of the public in the furnishing of unified telephone service in the Roseville, Ohio, service area, upon which the rates, charges, tolls and rentals for the furnishing of unified service are to be based, is, reproductive, \$40,705, and present, \$34,063, and, based upon the company's experience for the eleven months ended November 30, 1921, and adjusting for an estimated gross increase of revenues of \$2,937, estimating its operating revenues for one year at the sum of \$8,045.83, and its operating expenses for the same period at the sum of \$6,207.83, and contem-

plating a charge against the resultant net operating revenues for the depreciation reserve, based upon 5 percentum of the aforesaid reproductive value of said property, of \$1,987.86, the Commission further finds:

That the following schedule of rates, charges, tolls and rentals is just and reasonable for the furnishing of unified telephone service in the Roseville, Ohio, service area, and will not provide The Ohio Bell Telephone Company a greater rate of return than it is entitled to earn upon its property devoted to the service and convenience of the public in said service area, to-wit:

*Net
Per Month*

Business:

Individual line	\$3 50
Four-party line	3 00
Joint user on individual line.....	1 75
Extension station, same premises.....	1 25

Residence:

Individual line	2 25
Four-party line	1 75
Extension, same premises.....	75

Private Branch Exchange — Business:

Cord switchboard, one position.....	6 00
Additional jacks, per strip.....	1 00
Additional switchboard positions.....	3 00
Stations, same premises, each.....	1 25
Trunks	5 25

Private Branch Exchange — Hotel:

Cord switchboard, one position.....	6 00
Additional jacks, per strip.....	1 00
Additional switchboard positions.....	3 00
Stations, same premises, each.....	60
Trunks	5 25

Private Branch Exchange — Business:

Cordless board	3 00
Stations, same premises, each.....	1 25
Trunks	5 25

*Intercommunicating System:**Business:*

Stations, each	2 00
Cable, in excess of 30 feet per station, each 30-foot unit.	25
Trunks	5 25

Residence:

Stations, each	2 00
Cable, in excess of 30 feet per station, each 30-foot unit.	25
Trunks	3 38

Rural:

Business	2 50
Residence	1 75

Extra Radius Service:

Individual line, each quarter mile.....	50
P. B. X. or intercommunicating system trunk, each quarter mile	50
Four-party line, each quarter mile.....	20
Extension service, not located in same premises, each quarter mile of circuit.....	65

Extra Listing:

Business	1 00
Residence	50

It is, therefore, ordered, That said The Ohio Bell Telephone Company be, and hereby it is, authorized, upon the unification of its facilities for the furnishing of telephone service in the Roseville, Ohio, service area, to establish, maintain, impose, charge and collect for the furnishing of unified service in said service area, the rates, charges, tolls and rentals hereinbefore found and determined to be just and reasonable.

It is further ordered, That schedules be filed accordingly.

It is further ordered, That, upon any future application for a modification or amendment of this order, the Commission reserve the right, in the event it shall determine the aforesaid valuation to be incorrect, or the inventory upon which the same is based to be incomplete or inaccurate, to make such changes therein as may be necessary.

Dated at Columbus, Ohio, this first day of March, 1922.

In re JOINT PETITION OF THE SPRINGFIELD-XENIA TELEPHONE COMPANY AND CENTRAL UNION TELEPHONE COMPANY FOR SUCH CONSENT AND APPROVAL AS MAY BE NECESSARY TO PERMIT THEM TO RESPECTIVELY SELL AND PURCHASE CERTAIN TELEPHONE PROPERTY.

No. 2077.

Decided March 2, 1922.

Sale and Purchase of Property Authorized—Rates Prescribed for Service Pending Unification and Thereafter.

ORDER.

This day, after full hearing, due notice of the time and place of which was given to all parties in interest, this matter came on for consideration upon the joint application of The Springfield-Xenia Telephone Company and The Ohio Bell Telephone Company, (the latter substituted as a party herein in the place of Central Union Telephone Company by order * of this Commission in the proceeding authorizing the sale and conveyance to said The Ohio Bell Telephone Company of all of the property of Central Union Telephone Company in the State of Ohio), asking the consent to and approval, by this Commission, of the sale by said first-named applicant and the purchase by the latter of all of the telephone property and physical assets of said The Springfield-Xenia Telephone Company, or such part thereof as The Ohio Bell Telephone Company may desire to take over.

And the Commission having heretofore found and ascertained the valuation † of the several classes and kinds of property of the applicants, used and useful for the convenience of the public in the furnishing of telephonic service in and about the municipalities of Springfield, Christiansburg, Donnellsville, Xenia, Bowersville, Clifton, Enon, Jamestown, North Hampton, New Carlisle, Pitchin, Spring Valley, Tremont City and Yellow Springs, Ohio, and of

* See Commission Leaflet No. 110, p. 1957.

† See Commission Leaflet No. 115, p. 1872.

said property as a whole, upon which valuation the rates, tolls, charges and rentals to be charged, are to be based, and notice of such valuation having been duly given to said applicants and to the mayors of said municipalities, respectively, as provided by law, and it appearing that the consolidation of the property of the applicants in said territory will promote the public convenience, and that the public will thereby be furnished adequate service for a reasonable and just rate, rental, toll or charge therefor, the Commission is satisfied that its consent and authority for such sale and purchase of property should be granted.

And the Commission coming now to find and determine a schedule of reasonable and just rates, rentals, tolls and charges for local exchange telephonic service within said territory, based upon the aforesaid valuation of applicants' properties, the cost of such service, and having due regard for the necessities of making reservation from income for depreciation and contingencies, finds and determines:

That, pending the unification of said properties under the sole ownership and operation of said The Ohio Bell Telephone Company, such rates, charges, tolls and rentals as are lawfully in effect at this time in the respective exchange and service areas, are reasonable and just, and that, upon the unification of said property in said several exchange and service areas, under the sole ownership and operation of said The Ohio Bell Telephone Company, and so long as there shall be universal service within each such service areas as hereinafter defined, the following net monthly rates, charges, tolls and rentals would be just and reasonable, viz:

Class	Springfield Area		Xenia Area		
	Springfield	Donne'sville, Enon, North Hampton, Pitchin, Tremont City	Xenia	Bellbrook, Bowersville, Clifton, Jamestown, Spring Valley, Yellow Springs	New Carlisle Area—New Carlisle and Christiansburg
Business, one-party.....	\$7 50	\$4 00	\$6 00	\$3 50	\$3 50
Business, two-party.....	6 50	3 50	5 00	3 00	3 00
Residence, one-party.....	3 25	2 75	2 75	2 25	2 25
Residence, two-party.....	2 50	2 25	2 25	2 00	2 00
Residence, four-party.....	2 25		2 00		
Rural, business.....	3 50	3 50	3 00	3 00	2 50
Rural, residence.....	2 25	2 25	2 25	2 25	2 00
Extension, business.....	1 50	1 25	1 25	1 25	1 25
Extension, residence.....	1 00	75	75	75	75
P. B. X. trunks.....	12 75		7 50		
Cord boards.....	6 00		5 00		
Additional positions.....	3 00		3 00		
Strips jacks.....	1 00		75		
Cordless boards.....	3 00		3 00		
Intercommunicating, main station.....	2 25		2 00		
Intercommunicating, other stations.....	2 25		2 00		
P. B. X. stations.....	1 25		1 25		
Hotel stations.....	75		60		
Joint User:					
Business, one-party.....	3 25	2 00	2 50	1 75	1 75
P. B. X.....	4 75		3 75		
Extra Listing:					
Business.....	1 00	1 00	1 00	1 00	1 00
Residence.....	50	50	50	50	50

It is, therefore, ordered, That said The Springfield-Xenia Telephone Company be, and hereby it is, authorized to sell and convey to The Ohio Bell Telephone Company all of its said property and physical assets; and said The Ohio Bell Telephone Company hereby is authorized to purchase and acquire the same and to pay therefor the agreed consideration of \$615,000.

It is further ordered, That, upon the acquisition of said property and before, and upon the unification thereof, said The Ohio Bell Telephone Company may, subject to its legal obligations to any municipal corporation or political subdivision of the State of Ohio, impose, charge and collect for the furnishing of telephonic service in the exchange areas and municipalities hereinbefore named and set forth, rates, charges, tolls and rentals not in excess of the rates, charges,

tolls and rentals hereinbefore found, upon the basis of the valuation of its said property, owned or to be acquired under the authority of this order, the cost of furnishing such service, the necessity for making reservations from income for depreciation and contingencies, and all other matters which are deemed proper in the computation of rates by this Commission, to be just and reasonable, which rates, charges, tolls and rentals shall be and remain the maxima rates, charges, tolls and rentals for the furnishing of such service until changed as provided by law.

It is further ordered, That, forthwith upon the exercise of the authority herein granted, said parties file with this Commission schedules providing for their respective withdrawal from and inauguration of service in the territory now served by means of the property hereinbefore authorized to be sold and purchased.

It is further ordered, That the finding hereinbefore set forth as to the service furnished the public shall not be binding upon this Commission in any future proceeding involving said matter.

And, thereupon, came The Springfield-Xenia Telephone Company and excepted to each and every part of said order, and its exceptions here are noted of record.

And the Commission, coming further to consider the motion filed by the city of Springfield, Ohio, by its city solicitor, to dismiss the joint petition herein, finds that said motion is not well taken and that the same should be, and it, therefore, hereby is, denied.

To which finding, ruling and order of the Commission, the said city of Springfield, Ohio, then excepted and here now excepts, and its exceptions here are noted of record.

Dated at Columbus, Ohio, this second day of March, 1922.

OKLAHOMA.

Corporation Commission.

In re **PRESCRIBING RULES GOVERNING THE CONSTRUCTION OF
TELEPHONE, TELEGRAPH, ELECTRIC LINES AND POWER
TRANSMISSION LINES.**

Cause No. 4153 — Order No. 1946.

Decided October 31, 1921.

On October 31, 1921, the Commission issued its order prescribing rules and regulations governing the construction of telephone, telegraph, light and power transmission lines and crossings in Oklahoma in pamphlet form, which is too voluminous for publication here.

OREGON.

Public Service Commission.

In re APPLICATION OF THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY FOR AUTHORITY TO INCREASE RATES.

U-F-333 — Order No. 805.

Decided February 21, 1922.

Former Order Affirmed as to Each and Every Part Thereof on Rehearing.

OPINION.

This is a proceeding based on a petition for rehearing, granted by Order No. 712* of the Commission, issued on or about the twenty-first day of May, 1921. Hearing was convened at Salem, Oregon, on the eighteenth day of July, 1921, and extended over a period of six weeks, sessions being held alternately at Salem and Portland for the convenience of witnesses; and the case being finally submitted and adjournment taken on the twenty-sixth day of August, 1921.

By stipulation of record, the respective attorneys appearing in the case were given required time for filing briefs, and the last and final brief, that of the city of Portland, was filed on or about the twenty-fifth day of November, 1921.

In all, some six weeks were consumed in taking the testimony, 130 witnesses heard, 136 exhibits introduced and a record of some 5,000 pages of testimony made.

The Commission having reviewed the testimony, exhibits, briefs and the record herein, and now being fully advised in the premises, makes and files its opinion and order, as follows, to-wit:

INTRODUCTION.

The operations of The Pacific Telephone and Telegraph Company extend to all classes of citizens, and to nearly

* See Commission Leaflet No. 115, p. 1890.

every community of the State. In the establishment of just rates for a utility offering such diversity of conditions many problems arise, each of which must be considered both singly and in conjunction with all other factors in the case.

The Commission has considered carefully, individually and collectively, the grounds for rehearing set forth in the several petitions before it. Whatever may be the purpose of the segregation, the principles governing rate-making are simple. The public must not be overcharged, yet the utility is entitled to such revenue as will, under competent management, afford it a reasonable return upon the fair value of the property used in the public service. The Public Utility Act makes it the duty of the Public Service Commission to carry out these principles.

There are two steps in the ascertainment of just rates. First, the determination of the total amount of revenue which the utility may properly be entitled to earn; second, the equitable distribution between the various kinds and classes of services of the charges by which the necessary revenues are to be produced.

We shall discuss in detail the various points raised.

VALUATION.

The Commission, after an investigation covering more than two years and costing many thousands of dollars, established a value for rate-making purposes of the company's property, used and useful in the public service, of approximately \$12,500,000, as of December 31, 1916. The estimates of the engineers of the Commission, and those of the company, were submitted and fully discussed at public hearings. This valuation has been a part of the basis upon which three telephone rate orders have been made, and while there has been objection to it as excessive, no tangible evidence has been presented to us which would justify the expense and time required for a new appraisal. Comparisons made with valuations in other states, accompanied with no evidence of the character of the telephone development in those states, or the density of the population served

by the company whose plant is being valued, are useless, especially so in the present case, when the witness by whom they were introduced was unwilling to approve the principles upon which the valuations were made.

After the fair value of a utility property has been established it is the custom of the Commission to extend it from year to year by adding the net additions to the plant, as shown by the company's records, confirmed by examination of the property. A valuation of such a property as that of The Pacific Telephone and Telegraph Company in Oregon, could not possibly be completed in less than a year, and the expense would be utterly disproportionate to any benefits that could be derived from it. Such an expense would not be warranted oftener than once in ten years at the lowest estimate.

An exaggerated idea of the effect upon the rates of an overestimate of value is very generally entertained. The rates prevailing before the issuance of the last order were insufficient to produce a fair return on a valuation one-third that found by the Commission. Even if the highest estimate of alleged error in the valuation could be substantiated, it would justify a reduction in the present rates of less than $2\frac{1}{2}$ per cent.

RELATIONS WITH THE AMERICAN TELEPHONE AND TELEGRAPH COMPANY.

From the beginning of consideration of telephone rates, this Commission has given special attention to the relations of the Pacific company to the American Telephone and Telegraph Company, studying not only the nature and extent of services rendered by the latter, but also the actions and opinions of courts and other commissions relative thereto. At the recent hearing the Commission, on account of the emphasis laid on this subject by the petitioners, indicated to the company its desire that officials thoroughly conversant with the operations of the American Telephone and Telegraph Company and Western Electric Company, should be in attendance. Their testimony

occupied nearly a week and the major portion of this time was devoted to a searching cross-examination.

The American company owns about three-fourths of the stock of the Pacific company. This relation does not affect the duty or the jurisdiction of the Oregon Commission. We are interested only in the question of reasonable charges and earnings in this State. If other states permit such rates to be charged that the resulting profits to the American company from all of them together are excessive, the regulatory bodies in those states must answer to their constituents for any negligence. This Commission has taken especial care that no undue profits are made from operations in this State. Not a dollar has been allowed to the "parent" company except for services rendered.

It is strange that the petitioners should even question the value of the financial assistance rendered by the American company, since they have themselves asserted that for years the Pacific company's net return was under 4 per cent. It should be known to them, as it is known to all intelligent business men, that no industry, unless it has powerful outside assistance, can be financed, so as to sell its securities at par and meet its obligations promptly, on such a showing of earnings.

The American Telephone and Telegraph Company maintains extensive laboratories and a large corps of engineers and scientists, for the purpose of testing and developing inventions and improvements in the art of telephony, and in the manufacture of the materials used. The progress of the art was demonstrated by the company's witnesses at the recent hearing with numerous exhibits, and an impressive showing was made as to the value of this scientific work. We regard this department of research as a utility engaged in public service, and being satisfied that its services are worth more than they cost, we believe that the compensation for them should be their cost with reasonable allowance for return.

From the evidence submitted in the preparation of Order

No. 499,* we were able to make an estimate of the cost to the American Telephone and Telegraph Company of rendering scientific and financial services to its subsidiaries. No one has ever attacked the fairness of this estimate. A portion of the cost was assigned to Oregon on the basis of the number of stations in the State compared with the total number served by the American company. This was found to be approximately 55 cents per station, on pre-war prices. It is probably more now, but as the company has submitted no further evidence on this point, the Commission has made no change.

This 55 cents per station, per year, amounts to about one per cent. of the gross revenue and is the only payment to the parent company which is recognized by the Commission as properly to be included in the operating expenses in this State. If the Pacific company makes a larger contribution out of its own pocket, that fact is in no wise reflected in the rates authorized by the Commission, notwithstanding repeated allusions to the contrary.

WESTERN ELECTRIC COMPANY.

The manufacturing department of the American Telephone and Telegraph Company is a subsidiary corporation known as the Western Electric Company. It manufactures and sells to the other affiliated companies all kinds of telephone apparatus and acts as their purchasing agent for all other supplies. This arrangement makes possible the anticipation of the needs of all the companies, avoids overproduction and diminishes the reserve stocks necessary. The economy of such a plan is obvious. We wish only to be assured that its advantages are shared by the utility's patrons.

The Commission's engineers have made a careful study of the prices charged by the Western Electric Company and those of other supply houses on all comparable material. The result has been to show that the prices paid

* See Commission Leaflet No. 91, p. 439.

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by the Pacific company are not only not higher, but are in most cases lower than those charged by the competitors of the Western Electric Company. Our engineers are of the opinion that the same is true of materials serving like purposes but not directly comparable.

The company introduced an exhibit which makes an exhaustive comparison of prices paid by the Pacific company with those paid by independent telephone companies in this State. This exhibit shows the Pacific company to be buying more economically than the other companies. No attempt was made to controvert this evidence and it must be given due weight. From the record and its investigations the Commission believes that the Western Electric contract is of direct advantage to the patrons of the Pacific company.

Our conclusions are in line with the decisions of the majority of the state commissions which have investigated this subject. The Virginia Commission has recently stated that

"there was a marked difference in favor of the Bell company in prices made by the Western Electric."

The Georgia Commission says:

"We are satisfied that the contract with the Western Electric is of positive advantage to the Southern Bell."

The Louisiana Railroad Commission,* on April 1, 1921, said:

As to the contract with the Western Electric Company, there is no contradiction in any of the evidence of the outstanding fact, that by reason of this contract the Cumberland Telephone and Telegraph Company is able to make great savings on the materials and supplies which it purchases through this company and uses in furnishing telephone service in the State of Louisiana. True, the contract is criticised; but there is no dispute of the proven fact that this contract enables the Cumberland Telephone and Telegraph Company to actually purchase its supplies and materials cheaper than they can be purchased in the competitive markets. It is shown by the evidence that the Cumberland Tele-

* See Commission Leaflet No. 114, p. 1325.

phone and Telegraph Company is at liberty to purchase its supplies in the open market whenever the prices are lower than those for which similar supplies can be obtained from the Western Electric Company.

UTILITY ACCOUNTING.

The accounting system of a company handling 80,000 monthly accounts is necessarily voluminous, but the difficulties of analysis are much less than popularly believed. The methods of bookkeeping in use in private business are so varied in their manner of recording and presenting similar sets of facts, and so diverse in the meanings attached to the same terms and statements, that it would be hopeless to attempt to interpret the records of public utilities if they were kept in the same manner. When public utility regulation began, this difficulty was at once recognized. The Interstate Commerce Commission, in conjunction with various associations of accountants, thereupon prepared a uniform system of accounting for each class of utilities under its jurisdiction, giving in minute detail the accounts in which each transaction must be recorded, and the manner of its entry. Adoption of the proper system by each utility was made obligatory by law, and severe penalties were prescribed for any departure from it. These penalties are applicable not only to the corporation, but to each employee in responsible charge of any portion of the accounting.

The Interstate Commerce Commission regulations have been adopted by Oregon and by practically every state having a regulatory body. The result has been greatly to simplify the work of investigating utility operations and to give to the results a reliability and accuracy not realized by those unfamiliar with such matters. The operations of the Pacific company in the State of Oregon are clearly distinguished in its accounts from those in other states. Its relations with the American Telephone and Telegraph Company are definite and easily traced. The company has subdivided the standard accounts, as permitted by Interstate Commerce Commission rules, and established a

system by which the cost of work in progress can be readily ascertained. Such accounting is clearly in the interest of economy. The Commission encounters no obstacles other than the clerical labor involved in examining any phase of the company's operations.

CHARACTER OF THE SERVICE.

The city attorney of Portland conducted an inquiry into the nature of the service rendered to the patrons of the company in that city. Everything possible was done to reach dissatisfied subscribers, yet many of these, as witnesses, stated voluntarily that the service was good. The chief cause of complaint at former hearings, discourtesy and neglect on the part of employees in dealing with complaints, has been so far removed that there was no testimony presented on this point.

Complaints generally were based on the amount of the charges, on the slowness of the company in installing service, or on rules and requirements whose reasonableness has been established by the Commission, and which are of universal application throughout the United States. A few witnesses gave clear and convincing evidence of unjust treatment or unsatisfactory service, but the number was so small in comparison with the vast number of subscribers in the State as to furnish convincing proof that the great majority of telephone users find the service reasonably good.

This conclusion is further enforced by testimony of an experienced operator employed by the city of Portland, to the effect that out of nearly 300 tests, the average time required to receive an answer from the central office operator was only $5\frac{1}{2}$ seconds, while 50 tests showed only 18 seconds required to obtain the desired party by the automatic.

The Commission recognizes its duty to see that reasonable service is rendered in return for reasonable rates. Its offices at both Salem and Portland are open for the reception of complaints in regard to service anywhere in the

State, and all cases are promptly investigated, without cost to the applicant. More complaints are received because of failure of the company to install new telephones as rapidly as desired, than on any other account. This and the exceedingly small number of well founded complaints, is further proof that there is no general dissatisfaction with the service.

VALUE OF THE SERVICE.

Petitioners press the claim that the rates should be based on the value of the service. It is hard to believe that such a theory of rate-making is presented seriously. Shall the utility be required to furnish service for less than the wages of its employees, because to a few people it may be worth not more than \$1.00 a month? Shall all pay \$20.00 a month because many would find it advisable to pay that rather than be without service? Or, shall there be as many rates as there are users, because no two find it of the same value? The impossibility of fixing either minimum, average or maximum value should be sufficient to show the absurdity of such a proposition.

In the case of a service like that of the telephone, practically indispensable to the great majority of its users, the cost of giving service, under prudent management, with proper recompense to the investor for the use of his capital, furnishes the only practicable measure by which to establish reasonable rates. Some will doubtless find that the value of the service to them is less than the rate thus fixed, as would be the case no matter how low the rates were made. Is it the proposition of petitioners that the company shall be required to serve such customers at less than cost? The Commission rejects the proposal without hesitation, as contrary to justice and common sense.

That the rates have not been raised beyond the ability of more than a very few of the least benefited users to pay is shown by the effect on the number of telephone patrons. In the six months following the establishment of the present rates the number of telephone users in the State decreased 3½ per cent. Beginning with September,

there has been a net gain each month, which would have wiped out this loss, had not the unprecedented November storms required the diversion of all forces to reconstruction, stopping the installation of new telephones entirely, and leaving 1,000 unfilled orders for telephones on hand at the end of the year.

WAGES.

The Commission, while having no jurisdiction as to the fixing of wages paid employees of a utility appearing before it, has, however, in previous orders, found it necessary to comment on this subject so far as the wages have affected the service. In Order No. 472,* November 25, 1918, we said:

The Commission is of the opinion that increased wages will alleviate the seriousness of the present situation and believes the changes in the scale as outlined by the company may accomplish the desired end. That the wages now paid to the operators of the company are inadequate and should be immediately increased, there is no dispute.

Increased wages have, so far as the Commission has been able to observe, amply justified the above opinion.

There is no wage controversy between the telephone company and its workers. The city of Portland not only asked for such a reduction in rates as would inevitably bring about a decrease in wages, but also raised the issue of wages directly, introducing exhibits and testimony which could have no other object than to sustain a reduction. In support of this contention, counsel introduced an exhibit comparing the cost of living and the wages of telephone employees. In this exhibit the witness attempted to show by a graphic chart that wages and the cost of living were on a level or at a common point in the month of May, 1917. The chart actually shows that while increases were granted employees by the company, they were not sufficient to keep abreast of the cost of living, and it was not until the latter part of the year 1920 that these employees began to receive even a living wage.

* See Commission Leaflet No. 86, p. 769.

Some weight might be allowed to counsel's contention, were it not for the Commission's investigation in the year 1918, which resulted in the issuance of the order above quoted. We can not agree with the position of petitioners, nor do we believe that wages should be limited to the bare cost of existence. The record clearly indicates that wages paid telephone employees have never reached a point comparable with wages in other industries and it is the contention of the company that they have not been increased beyond the point where it was intended they should remain. The only conclusion that can be drawn from the record and from this exhibit is that wages should not be reduced.

This Commission, in the interest of the public welfare, having regard particularly to the number of women connected with the telephone industry, deemed it necessary to comment as above quoted. This condition having been corrected, the Commission would feel itself deserving of censure if it were instrumental, through recommendations or otherwise, in bringing back such conditions as then existed.

DEPRECIATION.

The only evidence offered during the rehearing which would tend to justify any appreciable reduction in the total revenue of the company was the opinion of a witness for petitioners, that the total depreciation reserve accrued by the company to date is excessive. He attempted to support this opinion in two ways:

First: He testified that from 1909 to 1920, inclusive, the average ratio of retirements to depreciable property was only 2.54 hundredths per cent., and that this, therefore, was shown by experience to be a sufficiently large percentage to allow annually for depreciation. The witness overlooked the fact that not only did the plant more than double during the twelve years just ended, but that it had been increasing rapidly for several years previous to that period. The percentage, if calculated on the proper base, would be more than twice as large, thus confirming the correctness

of the Commission's figures, and disproving the contention of the witness.

Second: It is claimed that a depreciation reserve can never properly exceed 15 or 20 per cent. of the total depreciable property. Several of the quotations from authorities offered in support of this contention do not touch upon the subject at all. Those who do mention it, give percentages such as are quoted, but base them on the entire property, and not on that which is depreciable, so that they do not in fact, support the position of the witness.

This evidence, when correctly interpreted, thus shows the converse of its authors' contention and illustrates the accuracy of the Commission's estimates.

It is to be regretted that the city's attorneys have quoted, with implied approval, extracts from arguments in favor of disregarding depreciation entirely in valuation and rate-making. Such a practice, if adopted here, would permit the telephone company to distribute its depreciation reserve to its stockholders as dividends, and charge all future replacements of plant to the current year's operating expenses, to be paid by the ratepayers instead of charging them, as now to the reserve. In other words, those future replacements of plant which have already been partly paid for by the ratepayers' contributions to a reserve, would all be paid for again. In the case of utilities which through bad management or bad investment have suffered loss by depreciation, without collecting rates to offset it, such losses, under the system of disregarding depreciation, would be recognized as proper charges against future ratepayers, to be collected as fast as the parts of the plant go out of service.

The protection afforded to the ratepayers by an adequate depreciation reserve is illustrated by the storms which raged over the greater part of the State in November and December. The extraordinary damages to the telephone company's plant amounted to close to a half million dollars. The expense of reconstruction will fall almost entirely on the depreciation reserve. Had there been no reserve, the

cost must have been added to the current operating expenses, and an increase of 10 per cent. for a year over the present rates would have been required to meet it.

The importance of this subject, and the erroneous views prevalent in regard to its nature and proper treatment, justify us in going into it thoroughly, even repeating much of what has been said in previous orders.

The true purpose of the inclusion of an annual allowance for depreciation as an operating expense is to insure the collection from the ratepayers of payment for the plant being used up in their service. The propriety of such payment is obvious, and it has repeatedly been upheld by the courts. No business can continue to exist which does not anticipate in some way the exhaustion of its plant. Regulated public utilities, with their net earnings restricted to a reasonable rate of return, can make such provision only through a depreciation reserve.

The true function of a depreciation reserve is to maintain the integrity of the investment by preventing the distribution, as dividends, of earnings which ought to be held to offset the loss in value of the plant as it wears out, and to protect the ratepayers by insuring them against the alternative of interrupted service or excessive charges to cover the cost of replacing plant when worn out. The reserve consists of earnings contributed by the ratepayers, but withheld from the stockholders, for the future benefit of the plant and, therefore, of the patrons. By this means, the burden of paying for plant, as it is used up, is distributed equally over the customers of all periods, instead of falling heavily on those of the time when renewals of plant become necessary.

No part of the reserve can be used to pay dividends, nor in any other manner to increase the profits of the stockholders, except by fraud, concealed by fraudulent accounting. For such fraudulent accounting every utility accountant, no matter of what rank, is made personally liable, under heavy penalties, by federal and state statutes. Competent accountants, some employed by the Commission, and

others by the petitioners, have carefully examined the books of the telephone company and have found them to be kept in accordance with the law.

Depreciation accounting is simple in principle. The property of the utility is classified according to rules laid down by the Interstate Commerce Commission. The probable useful life in service of each class of perishable plant is determined from experience and a proportionate fraction of its cost is allowed each year for depreciation. The sum of these allowances constitutes the depreciation annuity, which is added to the operating expenses. Whenever the useful life of a part of the plant is ended, the cost of replacing it, instead of being charged to operating expenses and paid by users of that date, is paid out of the reserve.

The methods of determining the amount to be allowed annually for depreciation are two: the sinking fund and the straight line. Under the former, the allowance is calculated as an annuity, which, at a determined rate of interest, will produce the required amount within the composite life of the plant. The owners are entitled to a return based upon the full amount of the investment, regardless of depreciation, since they are not free to use the reserve for their own benefit, but the necessity of paying part of their return into the sinking fund as interest, reduces their net return to the equivalent of one based on the investment less the reserve, or the depreciated value.

Under the straight line method the depreciation allowance is calculated by dividing the depreciable plant by the life. The sum of the annual allowances, therefore, equals the value of the plant at the end of its life, without any contributions of interest. The payments to the reserve are, in effect, repayments of capital to the owners, who are therefore entitled to a return only upon the investment less the reserve, or the depreciated value. When replacements of plant become necessary, the money required may be obtained from the owners in the same manner as new capital. It is not charged to operating expenses, but to the reserve, and by decreasing the reserve, increases the base upon which the owners are entitled to earn a fair return.

Sinking fund and straight line both yield the same results to ratepayers as well as to owners. The sum to the depreciation allowance calculated as an annuity and the return on the full investment under the one method is so nearly equal in all cases, to the sum of the allowance and of the return on depreciated value under the other, that the difference is negligible. A very simple calculation, by either method will soon convince any one that the reserve may very much exceed 15 or 20 per cent. of the plant, without injustice to the ratepayers. The ratio existing at any given time is dependent in large part on the extent to which additions to the plant have recently been made.

The probable life in service of each of the various parts of The Pacific Telephone and Telegraph Company's plant has been determined by the Commission's engineers by careful calculations based entirely upon the experience of the plant under consideration, as illustrated by the following tables.

Central office equipment has heretofore been assumed to have a life of eleven years, with a salvage of 20 per cent. In the first table a test is made of the correctness of the assumption. In the first two columns is shown the net increase of plant each year. If the assumption of eleven-year life is correct, the plant put in in 1890 must be replaced in 1901. The calculated replacements are shown in the third column and the total new plant installed each year in the fourth column. The latter will again be due for retirement eleven years later. The earliest records available of charges for retirement are those of 1909. The plant installed in 1898 was \$153,500. The charge to the reserve for retirement in 1909 should have been that amount less 20 per cent. for salvage, or \$122,800. A similar calculation is made for each succeeding year. The total amount of realized depreciation, on the basis of an eleven-year life, for the twelve years, should have been \$4,716,100. It was actually \$4,172,600, indicating that the average life of central office equipment is more than eleven years.

The second table repeats this calculation with a twelve-year life. The calculated and the actual amounts are here found to be practically the same. It would, therefore, appear that twelve years should be taken as the life of central office equipment, were it not that the records show the retirements in 1917 to 1920 to have been abnormally small, owing to the difficulty of obtaining labor, and the unusual cost of labor and materials during that period. If the plant retired in those years had borne the same ratio to the total as in the three years preceding, the actual realized depreciation in the first table would have been as much as the calculated. The life of central office equipment is, therefore, taken at eleven years, for the present, but the records for this year, when complete, may show that a small increase in life is justified.

CENTRAL OFFICE EQUIPMENT.

LIFE, ELEVEN YEARS; SALVAGE, 20 PER CENT.

Year	Net Increase of Plant	Replaces- ments	Total Installed in Year	Realized Depreciation		
				Year	Calculated	Actual
1890	\$86,000					
1891	18,600					
1892	18,600					
1893	18,600					
1894	18,600					
1895	18,600					
1896	153,500					
1897	153,500					
1898	153,500		\$153,500	1909	\$122,800	\$224,100
1899	153,500		153,500	1910	122,800	150,500
1900	153,500		153,500	1911	122,800	210,300
1901	530,000	\$86,000	616,000	1912	492,800	440,000
1902	530,000	18,600	548,600	1913	438,900	245,500
1903	530,000	18,600	548,600	1914	438,900	458,200
1904	530,000	18,600	548,600	1915	438,900	838,000
1905	530,000	18,600	548,600	1916	438,900	429,700
1906	530,000	18,600	548,600	1917	438,900	290,500
1907	530,000	153,500	683,500	1918	546,800	189,100
1908	604,000	153,500	757,500	1919	606,000	417,900
1909	481,000	153,500	634,500	1920	507,600	278,800
					<u>\$4,716,100</u>	<u>\$4,172,600</u>

CENTRAL OFFICE EQUIPMENT.

LIFE, TWELVE YEARS; SALVAGE, 20 PER CENT.

Year	Net Increase of Plant	Replaces- ments	Total Installed in Year	Realized Depreciation		
				Year	Calculated	Actual
1890.....	\$86,000					
1891.....	18,600					
1892.....	18,600					
1893.....	18,600					
1894.....	18,600					
1895.....	18,600					
1896.....	153,500					
1897.....	153,500		\$153,500	1909	\$122,800	\$224,100
1898.....	153,500		153,500	1910	122,800	150,500
1899.....	153,500		153,500	1911	122,800	210,300
1900.....	153,500		153,500	1912	122,800	440,000
1901.....	530,000		530,000	1913	424,000	245,500
1902.....	530,000	\$86,000	616,000	1914	492,800	458,200
1903.....	530,000	18,600	548,600	1915	438,900	838,000
1904.....	530,000	18,600	548,600	1916	438,900	429,700
1905.....	530,000	18,600	548,600	1917	438,900	290,500
1906.....	530,000	18,600	548,600	1918	438,900	189,100
1907.....	530,000	18,600	548,600	1919	438,900	417,900
1908.....	604,000	153,500	757,500	1920	606,000	278,800
					<u>\$4,208,500</u>	<u>\$4,172,600</u>

The effect of improvements in equipment is shown by the excess of actual over calculated retirements in the earlier years and the reversing of this relation toward the end of the period. The elimination of the less durable material as time goes on will result, under the Commission's method of treatment, in the assignment of a gradually increasing life.

The length of the life of each part of the Pacific company's plant has been recalculated in accordance with the latest records, but no change has been found, sufficient to call for a revision of the allowance for depreciation in the estimates on which Order 689* was based. These calculations in full, are too bulky for inclusion in this order, but may be seen in the offices of the Commission.

The amount claimed by the company for depreciation in 1917 was \$169,184 more than allowed by the Commission; in 1918, \$163,026 more; in 1919, \$170,561 more; in 1920,

* See Commission Leaflet No. 113, p. 1082.

\$128,711 more; in 1921, \$143,000 more; in all a difference of \$774,482. While it is true that the company should have credited its reserve each year with interest, in spite of the omission of the statute to prescribe such a credit, no injustice to ratepayers has resulted, because the Commission, in judging the adequacy of the utility's earning, has always fixed the depreciation annuity at the amount that would be proper if the reserve were in fact being built up partly out of interest.

It is also desirable that a separate reserve should be established for the State, but the benefits of such a course would not be realized immediately. In the meantime the Commission, in estimating the life of each portion of the plant, is guided by the experience of the company as a whole, and can not go far astray as regards the property in Oregon.

RATE OF RETURN.

The Commission, in calculating the past net earnings of the company, has made large reductions in the amounts claimed for depreciation, and for payments for services of the American Telephone and Telegraph Company. The Pacific company has been under regulation for ten years, during which time the return to the owners, out of which both interest and dividends have been paid, has averaged 3.5 per cent. and has fallen short of 6 per cent., by over \$2,500,000.

The petitioners presented calculations of income, based on a series of fallacious assumptions, and with the elimination of charges which are entirely proper. They purport to show that the company is now making an excessive rate of return.

We wonder at their moderation. Under their system of accounting, whereby whole groups of expenses can be wiped out of existence by the simple process of refusing to enter them in the accounts, it would be easy to show that the company is making much more than the petitioners claim.

Half of the maintenance expenses might be excluded on the ground that they could be deferred a year without compelling operations to cease. The expense of collecting the company's rates might be eliminated, as not in the public interest. A reduction of 10 per cent. in operators' wages, so frequently urged and repudiated by counsel for the city of Portland, would make another substantial addition to the dividends. In fact, there seems to be no limit to the extent to which profits may be increased by a fertile imagination. Being debarred, however, from flights of fancy, we shall content ourselves with observing that, even if the returns to the stockholders were twice what they actually are, as shown by the income statement which follows, and could continue at the same rate, it would take eight years to bring their average earnings up to 6 per cent. for the entire period of regulation.

INCOME STATEMENT.

* YEAR 1921.

Revenues:

Exchange service revenue.....	\$3,956,599 00
Toll service revenue.....	1,181,418 00
Other miscellaneous operating revenue.....	123,891 00
Licensee revenue, Dr.....	(52,090 00)

TOTAL OPERATING REVENUE.....	\$5,209,818 00
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Expenses:

Depreciation — plant and equipment.....	\$675,079 00
Other maintenance expense.....	1,204,520 00
Traffic expense	1,585,018 00
Commercial expense	482,502 00
General and miscellaneous expenses.....	149,990 00

TOTAL OPERATING EXPENSE.....	\$4,097,109 00
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NET OPERATING REVENUE.....	\$1,112,709 00
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Uncollectable operating revenue.....	\$21,436 00
Taxes assignable to operations.....	428,740 00

OPERATING INCOME	\$662,533 00
Rent revenue — miscellaneous	1,551 00
Rent deductions	50,254 00
Amortization of landed capital.....	2,999 00

NET INCOME	\$610,831 00
U. S. government income tax, Cr.....	53,000 00

INCOME (COMPARABLE WITH INCOME OF NON-TAX EXEMPT BONDS AND SIMILAR STANDARDS OF MEASURING INCOME)	\$663,831 00
Mean fair value for year.....	17,338,182 00
Per cent. return.....	3.83

* One month estimated.

() Figures in parentheses denote deficit.

DEBATABLE IMPROVEMENTS.

It was earnestly urged by counsel for petitioners that the Commission should withhold adequate rates until the com-

pany would install certain devices which it was claimed were superior to those now in use. It was demonstrated that some of these devices would work satisfactorily when in good order, and it was testified that experience in some eastern cities had proved their reliability in actual use. On the other hand, the company's witnesses contended that the devices were delicate and unreliable, and that the annoyance to users caused by their uncertainty of action outweighed their advantages. It was also shown that they were in actual use to only a very limited extent.

The law does not direct that this Commission shall undertake the management of the utilities whose rates are under its control, nor has it been provided with the funds necessary to enable it to undertake so arduous a duty. No such function could be performed without employing a staff of scientific and business experts and accountants many times that now engaged. But if all that has been said in favor of these improved devices were proved to be well founded, we should decline at such a time as this to order the utility to substitute them for equipment rendering good service and capable of doing so for years to come, knowing, as we do, that the cost of all such changes must ultimately be borne by the telephone users.

It may be well at this point to recall that, during the hearing prior to Order 499,* there was much criticism of the company for its alleged intention to discourage users of automatic service and ultimately to drive automatic equipment out of the field. Its denials were received with open incredulity. At the recent hearing the wind had shifted and the company was freely charged with arbitrary conduct in forcing automatic service on an unwilling public.

MANAGEMENT.

While the Commission has frequently analyzed the pay rolls as a safeguard against unwise or improvident expenditures, this scrutiny seems almost to have been super-

* See Commission Leaflet No. 91, p. 439.

fluous since the selfish interest of the stockholders should be sufficient incentive to guard against extravagance. Counsel for petitioners inadvertently admit this, for in arguing another point, they say:

It (the company) may increase its net returns by retrenchments and economies all along the line.

The stockholders of any business enterprise are primarily concerned with the return, and certainly frittering away of money by permitting unearned salaries and useless employees to swell the pay rolls would not be countenanced for a moment. A glance at the Pacific company's income statement should be sufficient to dispel the illusion that any such conditions exist in the instant case. Counsel for the city of Portland in his reply brief indicates that the average return enjoyed by the company over a period of years is 3.3 per cent. Could a greater incentive be given the stockholders to hold operating expenses to a minimum than such a return on the investment, inasmuch as every dollar saved would result in more money in their pockets?

TOLL RATES.

Petitioners repeatedly urged, without presenting evidence, that the increase of revenues tacitly admitted to be necessary, should be obtained by increasing toll rates. No state in the union has found it advisable to increase toll rates above those established by the Postmaster General, which are the rates now in effect in this State. Toll revenues are only about one-fourth of the total revenues of the company. A very large proportionate increase would therefore be necessary to effect any material change in the total.

From protests received from the smaller cities of the State, which have relatively large amounts of long distance communication, we are confident that any material increase in toll rates would defeat its own purpose by restricting traffic.

PRIVATE BRANCH EXCHANGES.

Many unjust discriminations in telephone rates have existed for years, the outgrowth of the competitive conditions which prevailed before regulation was instituted. They have been gradually abolished, though naturally with vigorous protest from each class or community whose special privileges were taken away.

Hotel rates, during past years, have been unduly low, as compared with those charged for other services of the same class. No essential difference exists between a private branch exchange serving a hotel and one in any other business. The present schedule establishes a small differential in favor of stations in guest rooms, as compared with those in business houses, because this part of the service is semi-residential in character, but in all other respects the rates should be and have been made the same.

An applicant for hotel service can at his option be served with an unlimited business service without the privilege and convenience of intercommunicating service to guest rooms, or with a private branch exchange, which necessitates the service of an operator at the switchboard. The former service provides a complete service between the hotel management and the entire system of the telephone company, while the latter fulfills all the requirements of the unlimited business service, and in addition, provides equipment which enables guests to converse with each other, the management or the outside world, without leaving their rooms. The equipment required to furnish the latter is costly and somewhat more complicated than the ordinary equipment and therefore incurs a slightly higher maintenance charge per circuit.

FARMER LINE SERVICE.

Farmer line service was freely discussed at the rehearing and many of the users offered testimony as to the character of the service, and its value, determining the latter by comparison between past and present rates. Such testimony, while instructive, lacks the essential elements of

proof necessary to demonstrate that the present rates are unreasonable or inequitable. Counsel made no attempt, either by exhibits or testimony, to show that the company's present schedule of rates was inherently excessive, or that his clients were being made to bear more than their just proportion of the burden.

Extremely low rates have been charged for service to subscribers on farmer lines. These rates were established under competitive conditions, many of them by companies no longer existing, and at a time when the effects of development on cost were neglected. The time has come when every user of telephone service should pay, as nearly as possible, in proportion to the cost of serving him, in order that all charges may be equitably distributed.

Statements that any service is worth nothing may be dismissed without consideration. Men do not apply nor continue to pay for that which is worth nothing to them. It is important, however, that a charge be just, whether great or small.

Talk about 100 per cent. increase can not be taken too seriously when it is known that the maximum rate under the present order outside the Portland exchange is only 75 cents per month. The resulting revenue barely exceeds the amount of money necessary to pay for the operators' time in rendering this service.

Farmer lines necessitate a greater plant investment per circuit than does the average city line. In every case where farmer lines are connected, the company extends its line and connects with the subscriber at the city limits, while the average distance of line used to connect a city subscriber is much shorter. This extra length of line more than offsets the cost of instruments required for the average city line. The company not only constructs the farmer line to the city limits, but also maintains it.

Investigation shows that, on the average, one operator serves 40 farmer lines or 160 city lines. It is apparent that the cost of handling calls involving farmer lines is greater than that incurred in handling other classes of calls.

Therefore, the farmer line is equally responsible with every other line for the expenses incurred in operating the exchange with which it is connected.

The argument is advanced by counsel for the Oregon Telephone Federation that farmer lines produce a large amount of toll revenue. If it be true that more toll revenue per station is obtained from these than from city residence patrons, it can only be from the fact that the farmer's use partakes to some extent of the character of a business service. On such a basis the rate should be further increased, as the service is more valuable.

OAK GROVE AND MILWAUKIE.

Discriminations have existed between communities as well as classes of patrons. Communication from Oak Grove and Milwaukie to Portland has been permitted without charge, a 5-cent toll rate being required in the opposite direction. The latter charge was frequently evaded by pre-arrangement of calls. Subscribers in these towns thus received what was virtually Portland service. They received it for less than Portland rates, though the cost of giving it was more, on account of distance. Under the present tariff a 5-cent toll rate is charged in each direction and the exchange rates have been slightly decreased.

Milwaukie now proposes that it pay the Portland rates and be included in the Portland primary rate area, arguing that it is only a mile outside the city limits. Oak Grove amends by proposing that the area be extended to the Clackamas River. The Clackamas River is just outside the city limits of Oregon City, so it would be unreasonable to resist the claim that Oregon City, too, should be included with Portland.

The size of the primary rate area, as well as the number of users in it, is an important factor in cost, and consequently in rates. The boundaries of the primary rate area must be restricted as much as practicable in the interest of the subscribers. Inclusion of Oak Grove and Milwaukie would mean that the extra cost of serving them would be

laid on the Portland rate area. The line must be drawn somewhere and we can see no other place as suitable as at the city limits.

In large cities, like New York and Philadelphia, it has been found advisable to establish separate rate areas within city lines. These zones may be separated only by the center line of a street which is solidly built up on each side, yet toll rates are charged for communication between areas.

It was shown by the company at the hearing that the total of the charges to the subscribers in Milwaukie in the month of April at the Portland exchange rates would have been more than the charges actually paid, toll and exchange combined. With a toll charge of only 5 cents, it is not conceivable that any necessary messages were not sent, although doubtless much unnecessary conversation was eliminated. It is evident that if Milwaukie were included with Portland at the request of a few whose total charges would be lowered, there would be at once a vigorous protest from the larger number whose charges would be increased.

OSWEGO.

All that has been said of Milwaukie and Oak Grove applies with even more force to the situation at Oswego. This community of less than 200 subscribers is separated from the Portland exchange area by several miles of almost wholly unoccupied territory. Isolated as it is, it is not practicable to serve it except by a separate exchange. From the standpoint of telephone service, the situation is not different, except in distance, from scores of other towns in the State. There is nothing to justify discrimination in favor of Oswego except that such discrimination has existed heretofore. The reestablishment of free service would necessitate the granting of similar favors, not only to Milwaukie, Oak Grove and Gladstone, but also Tigard, Beaverton, Gresham, Fairview and doubtless other towns situated close to larger cities. Such a policy, though apparently an insignificant matter in each individual case, would inevitably result in increased cost of service and higher rates to the patrons of the larger exchanges.

ASTORIA.

While other petitioners claim that Oregon is merely an outlying part of a national system, and, being in a backward state of civilization, should not be expected to pay its way, Astoria goes to the opposite extreme and contends that its own rates should be fixed on a strictly local basis.

It has always been the position of the Commission that in telephone rates, the State should be treated as a unit. The various communities of the State are much more closely knit together by common interests than are the States of the Union. The value to all telephone users of extension of service to many small communities, where the local expenses are necessarily greater than the local earnings, is so great that it is just and right that the State system be considered as a whole, such rates being fixed as will meet the entire cost, and the charges so distributed that uniform rates will prevail in exchanges of approximately the same size and development. This principle is approved and recommended to the state commissions by the National Association of Railway and Utilities Commissioners in a report which we quote in part:

It is interesting to note the method pursued by the Colorado Commission in establishing telephone rates, based upon the theory that State-wide service must be furnished and rates established which should enable reasonably good service to be furnished to all parts of the State, which, of necessity, involved the fixing of rates in large cities on a basis sufficient to cover cost of operation, depreciation and reasonable return, and at the same time encourage the development and use of the telephone in rural districts.

This principle largely resembles that governing the federal postal rates, and the record and decision of this Commission is recommended to the careful perusal of all state commissions as being one of the most recent decisions based upon a careful and scientific investigation, and probably being less discriminatory than any other rates covering so large a territory.

The apparently high earnings in Astoria have been due to the fact that the plant is being used to the fullest possible extent, "completely saturated," in technical phrase, needed extensions and betterments having been prevented

by scarcity of labor and difficulty of obtaining materials. The sudden expansion of the city's industries during the war added to the congestion. Temporary expedients have kept down expenditures and produced the appearance, for a time, of high profits. But good service can not long be maintained with makeshifts. Permanent construction in Astoria, already far advanced, will so increase the total investment that the return will not exceed the most conservative estimate of a fair rate.

WARRENTON.

Previous to Order No. 689,* Warrenton subscribers paid Astoria rates and enjoyed toll service to and from Astoria without charge. This practice had never been justified, but it was of long standing, and while the full capacity of the toll line was not needed for other service, was not particularly objectionable. The necessity of placing additional wires, if the former service was to be maintained, made it incumbent on the Commission to consider carefully the propriety of such an arrangement. It was our decision that the giving of free toll service constituted an unjust discrimination and ought to be discontinued, and we so ordered, at the same time establishing lower exchange rates at Warrenton, appropriate to the size of the exchange.

The citizens of Warrenton are urgent in their request that their former status be restored, asserting that all their telephonic communication is with Astoria, and that they are practically citizens of that city, but their interests are not alone to be considered.

Astoria service furnished in Warrenton would cost much more than in Astoria. Not only would it have every item of cost belonging to service in Astoria, but it would also be necessary to keep up (as now) a separate exchange for less than 70 subscribers and to maintain 5 or 6 trunk lines 8 miles in length, connecting Warrenton with the Astoria

* See Commission Leaflet No. 113, p. 1082.

office. Communication with Astoria would in all cases require the services of an operator at Warrenton as well as of one at Astoria. The total revenue which would be received from Warrenton subscribers at Astoria rates would be barely sufficient to pay the out-of-pocket expenses of maintaining and operating the Warrenton exchange, leaving nothing to pay for their share of the costs in Astoria, or even of maintaining the wires by which they would communicate with Astoria.

If Warrenton be given Astoria service at Astoria rates, the telephone users of the rest of the State must make up most of the difference. Part of the extra cost, however, would fall directly on Astoria, for that city is now the largest in the third of the 6 groups into which the exchanges of the State are divided, and only a small addition is needed to cause it to be transferred to the second group, where the rates are higher.

It is our opinion that the people of Warrenton should bear the cost of the service given them in the same proportion as other small exchanges, and that the burden can not be more equitably imposed than in the form of toll charges.

IN GENERAL.

A brief review of the conditions existing prior to the beginning of regulation of public utilities may be of use in defining clearly the position and duties of the Public Service Commission. One does not have to be very old to remember the evils of that "cut-throat" competition for which the public invariably paid in the end. It was the evil effects of unbridled competition which brought about the system of public regulation of rates. The primary purpose of such regulation was undoubtedly the prevention of excessive charges on the public but the assumption of government control over investment involves other responsibilities as well. All business enterprises, prudently conducted, recognize the existence of eras of depression as well as of prosperity. During good times private enterprises are accustomed to maintain their rates or prices at the

highest practicable level, and to lay aside a large part of their profits in the form of surplus, out of which to maintain their dividends and even to pay part of their operating expenses, during times of depression. Without such provision it would be practically impossible for any of them to maintain themselves through periods of dull times. Had there been no other restriction upon the telephone company than the antiquated provisions found in its franchises, which are set out in our Order 499,* telephone rates unquestionably would have followed the trend of other commodities during the war, with the result that rates would have been much higher than those now paid and would have reached their peak three or four years sooner. The company would have been able to accumulate a surplus sufficient to carry it over the present depression without difficulty.

Under regulation it has been impossible for the public utilities to exercise such discretion. Their charges are at all times held down to a point where they will not produce more than a reasonable rate of return on the investment.

It is manifestly unfair that the utilities, having been deprived of the opportunity to share in the fruits of prosperity, should nevertheless be expected to bear the full burden of adversity. It is just and equitable, as well as a duty under the law, for the Commission to permit the establishment of rates which will enable the utility to earn a moderate return even in times of depression, provided of course that the rates are not in excess of the value of the service or greater than the ability of the patron to pay.

This is in no wise a guarantee of profits. It is merely a permission to earn a fair return if the users are able and willing to pay the necessary rates.

Our position is supported by similar bodies throughout the United States. We quote from a recent decision of the Public Service Commission of Indiana, under date of March 29, 1921, *In re Illinois Bell Telephone Company*: †

* See Commission Leaflet No. 91, p. 439.

† See Commission Leaflet No. 113, p. 933.

It is contended that in times of business depression, a public utility should be required to forego its profits and take its losses like any private corporation. This might be all right if, during hard times, a public utility were permitted to close its doors and suspend operation until business conditions became promising. It might be still more logical if a utility were permitted during boom times to enjoy large earnings and pay out its profits in dividends.

Petitioner furnished service throughout the war period at less than the cost of the service, while unregulated private corporations were joyfully making unheard of profits.

The Federal Government, in November, 1918, acting through the Postmaster General, placed in effect throughout the United States, tariffs making material increases in telephone rates. These schedules were accepted by the majority of the states, Oregon alone making a successful protest on the grounds that the State's jurisdiction had not been recognized nor the necessity of increased revenue shown.

The matter being finally submitted to the Commission, a searching investigation was made. The Commission found that the company's employees were underpaid, the operators, in particular, receiving wages on which it was impossible for them to live, and that with all other expenses increasing, the company could not pay living wages without some assistance. Order No. 499 * was accordingly issued on May 2, 1919, denying the Postmaster General's application but authorizing an increase in business rates. It was plainly stated that the relief granted was only partial, it being hoped that prices and wages had reached their peak, and that their decline would soon afford the company the additional relief needed.

On release from federal control in July, 1919, the company again attempted to put into effect the rates proposed by the Postmaster General and was again resisted by the Commission, and a hearing ordered. An extended investigation brought out the fact that the expected improvement in business conditions had not yet developed, but that

* See Commission Leaflet No. 91, p. 439.

on the contrary, prices had continued to rise, and that while material increases in wages had been made, further increases were pending and necessary. Order No. 557 * was thereupon entered, on November 29, 1919, prescribing certain residence rates designed to provide for these further advances in wages and materials.

Expenses, instead of falling, have continued to increase. The company, finding that it was earning less than a 2 per cent. return, not enough to meet interest charges, again applied to the Commission for relief. After a thorough scrutiny of accounts, an exhaustive hearing and careful consideration of the demands of justice to all concerned, the utility, its employees and its patrons, the Commission issued Order 689,† now under review.

It may be here noted that the net result of the various proceedings above outlined is that in the year 1921, the Pacific company received a smaller percentage of return on its investment than in 1918, before any rate advance had been made. Thus, in spite of an increase of 25 per cent. in the number of telephones in use, the entire effects of increased rates have been more than absorbed in advanced wages and cost of materials. It can not even yet be safely assumed that the peak of cost of operation in telephone service has been passed, for operating expenses per station in 1921 were 11 per cent. more than in 1920.

We have thus shown that for more than two years prior to its last order the Commission had had the operations of the telephone company under close surveillance. Fourteen months had been occupied with actual hearings and investigations. Many of the most prominent and well advised attorneys of the State had appeared, representing 25 cities and other civic bodies. One hundred witnesses had been examined, including engineers, accountants and experts of unquestioned ability; more than 200 exhibits had been received, including voluminous statements prepared upon

* See Commission Leaflet No. 97, p. 455.

† See Commission Leaflet No. 113, p. 1082.

request; the testimony covers more than 2,000 type-written pages; and the expense to all parties, caused by these investigations, together with the valuation, is estimated at about \$250,000; all prior to the last order.

Scarcely had these proceedings been concluded when the petitioners appeared, requesting that since the Commission had failed to inform itself on telephone matters, its rate order be set aside and the company's affairs be investigated.

These petitioners had all taken part in the various proceedings and were at least partly responsible for any alleged lack of completeness in the evidence. Nevertheless so serious were the allegations in the petitions, and so insistent were they in their assignments of error, that the Commission granted a rehearing, basing its order on representations that sufficient new evidence would be brought out to justify the time and expense of further consideration of this important subject.

It is right that the people should now be informed of the extraordinary manner in which they have been imposed upon and the time of their officials wasted. In spite of positive assertions of error in the findings of the Commission, not a scintilla of evidence worthy of the name was offered in support of the contentions of the petitioners. In saying this we do not impugn the motives or the intelligence of the witnesses in the least. The responsibility for offering irrelevant testimony on matters at issue or on subjects already fully covered must rest on those conducting the case.

Actions of counsel for petitioners have been characterized by an apparent desire to confuse rather than to elucidate the issues before the Commission. Wholly extraneous matter was constantly dragged into the discussions. Repeated requests on the part of the Commission that the rules of regular procedure be observed were disregarded or met by staged imposition. Instead of direct evidence were heard extravagant declarations of what counsel were about to prove, or had proved, although examination of the record

C. L. 124]

fails to show that a single one of their contentions was proved or even plausibly attempted

The rehearing was asked ostensibly for the purpose of pointing out the errors in the conclusions reached by the Commission in Order 689,* but the attacks of the petitioners were directed, not against that order, but against the evidence by which the company supported its claims at the hearing which led to that order. We thus have the strange spectacle of a "rehearing" devoted chiefly to arguments against claims made by the company and already rejected by the Commission. The manoeuvre could have had no other object than to divert the attention of the public from the fact that the Commission had granted much less than the company asked.

The Commission listened with interest to dissertations on technical matters by a telephone engineer of undoubted scientific attainments, who dwelt on the advantages of equipment other than that used by the company. The responsibility, however, of prescribing the equipment to be used by the utilities of the State does not rest on this Commission. The testimony of this witness was therefore almost wholly irrelevant and beside the issues.

Petitioners presented through a public accountant, whose standing is known to carry weight with the Commission, certain calculations purporting to be income statements of the Pacific company. On being questioned as to the basis of these statements the witness replied that he had prepared them on certain hypotheses dictated to him by counsel and that he disclaimed any responsibility for their correctness. Yet, we find counsel, in their brief, presenting these statements as the testimony and conclusions of this witness.

A score of witnesses were put forward to say that they opposed any increase in rates. This was not necessary. Every man of reason knows that no one wants to pay more for service. The witnesses are not more averse to paying higher rates than this Commission is to ordering them paid.

* See Commission Leaflet No. 113. p. 1082.

Much was said by counsel about poor service, but petitioners' own witness showed by test that calls were answered with a promptness possible only under efficient management.

Hours of argument and pages of brief were devoted to assertions of gross inefficiency of management, but petitioner's only witness on this point testified that he had visited four exchanges in a single afternoon, and based his opinion on the fact that he found in use certain devices which he thought not the best for the purpose. Furthermore, it was admitted by counsel that the stockholders of the company would be the first to profit by economy.

The $4\frac{1}{2}$ per cent. licensee revenue paid to the American company was constantly referred to as exacted from the patrons of the company and paid to the parent company for no consideration whatever, notwithstanding that it was well known to counsel for petitioners that less than one-half of this percentage was allowed by the Commission, and that this allowance was based on the actual cost of service rendered by the American company. Washington, Idaho, Arizona, Colorado, Utah, Wisconsin, Michigan, Missouri, Arkansas, Louisiana, Alabama, Georgia, South Carolina, Virginia, West Virginia, Ohio, Illinois, Pennsylvania, Maryland, District of Columbia, New Jersey and the Dominion of Canada have allowed the $4\frac{1}{2}$ per cent. or an equivalent. Oregon, California, Indiana, Kansas, Oklahoma and Vermont allow it in part, *none reject it*.

The Western Electric contract has been accepted by every State which has passed on it. In their brief, petitioners abandon the claim that Western Electric prices are higher than those of other supply houses, but maintain that they ought to be much lower, and that all relief should be denied the company until the operations of the Western Electric, which cover the entire nation, have been investigated in every detail and its rate of net earnings ascertained in order to determine how much lower it might be compelled to sell. It is of no consequence to counsel that such an investigation would cost \$500,000 and would require two years or more time.

Testimony concerning farmer lines consisted of complaints that the rates had been raised. It is interesting to know that the Everett Telephone Company, so highly lauded by counsel for petitioners, charges farmers $33\frac{1}{3}$ per cent. more than the highest rate for such service in Oregon.

The Commission's allowance for depreciation was attacked as unscientific on the ground that no such calculation could be reliable unless based on the historical records of the property involved. Order 499 * shows that this principle was recognized and adopted by this Commission two years before it was "discovered" in the Chicago case quoted by counsel.

Petitioner's principal expert admitted that $5\frac{1}{2}$ per cent. for depreciation was a reasonable average rate for telephone properties in the United States and that 6 per cent. was carried by the companies with which he was connected. This Commission has allowed an average of $4\frac{1}{2}$ per cent.

Seven authorities are cited and quoted in the brief of the city of Portland in support of the claim that a depreciation reserve can not rightly exceed a certain percentage. Not one of these authorities supports that contention.

The depreciation reserve has been constantly represented as a burden on the ratepayers. On the contrary, it consists of funds withheld from the stockholders for the protection of the property. It has been contributed by the ratepayers, and is, and always will be the property of the ratepayers. The company is obliged to account for it as such. The claim that the reserve is too large is equivalent to a complaint that the company has withheld from its stockholders too large a proportion of its past earnings in order to put them into a fund for the benefit of its patrons.

At the same time that the reserve is said to be too large, it is asserted that the plant is obsolete. If obsolete, the reserve must be used to replace it, and can not be too large.

Petitioners allege that telephone employees were receiving higher wages than ever before. They introduced

* See Commission Leaflet No. 91, p. 439.

exhibits purporting to show that wages could be reduced without injustice. They presented calculations of the effect upon net earnings of a reduction in wages; yet, they claim that they have not advocated such a reduction.

Petitioners have presented nothing worthy of serious consideration or justifying the suspicion and agitation which they have aroused. Their failure to support their contentions was so obvious, even to themselves, that they repeatedly fell back on the excuse that the Commission ought to investigate the subject and, by inference, ought to supply the evidence which they had promised to produce. The descent from the sublime to the ridiculous is not often better illustrated than by the transition from the grandiloquent announcements at the opening of the case to the feeble excuse that the Commission "ought to look into it." Verily, "*Parturiunt montes, nascetur ridiculus mus.*"

Expense and waste of time are not the only losses suffered through this needless agitation. The immense resources of the State need money for their development. For the necessary capital, we must compete with a world in need. The reputation of a community for fair dealing is a factor taken into account by all prudent investors. If a great and indispensable, state-wide public utility is denied even the earnings possible on a savings bank deposit, is it to be expected that new capital will seek this field? If bitter and prejudiced agitation is followed by the denial of bare justice, we shall inevitably be driven to state and municipal ownership of all public utilities.

There must be a definite acceptance of the principle that the true welfare of the public is best served by the maintenance of such rates as will enable the utility to pay reasonable wages to its employees and to expand as required by our growing communities. Temporary measures will no longer avail. The duty of this Commission is plain. Nothing adduced at the rehearing would justify the Commission in doing other than sustain the original order.

Therefore, based on the record herein, the Commission makes its findings as follows, to-wit:

FINDINGS.

1. That the evidence produced at the rehearing on the part of the petitioners is insufficient to justify any changes, alterations or modifications of any provisions of Order No. 689 * hereinbefore entered by this Commission.

2. That the provisions of Original Order No. 689 * should be confirmed in all things and every part thereof.

ORDER.

Based on the foregoing findings and the record herein and being fully advised in the premises, the Commission makes and enters its order on rehearing, as follows, to-wit:

It is hereby ordered, That the rates, rules and regulations set out in Order 689,* which by this reference is made a part hereof, is hereby in all things affirmed, and in each and every part thereof, and such rates, rules and regulations set out in said order shall be and remain in effect, and it is so ordered.

Dated at Salem, Oregon, this twenty-first day of February, 1922.

* See Commission Leaflet No. 113, p. 1082.

PENNSYLVANIA.

The Public Service Commission.

In re APPLICATION OF THE PERRY COUNTY TELEPHONE AND TELEGRAPH COMPANY FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY EVIDENCING THE COMMISSION'S APPROVAL OF A CONTRACT BETWEEN THE PERRY COUNTY TELEPHONE AND TELEGRAPH COMPANY AND THE BOROUGH OF MARYSVILLE, GRANTING TO THE TELEPHONE COMPANY THE RIGHT TO CONSTRUCT, MAINTAIN AND OPERATE ITS TELEPHONE SYSTEM WITHIN THE LIMITS OF THE BOROUGH — CUMBERLAND VALLEY TELEPHONE COMPANY OF PENNSYLVANIA, PROTESTANT.

Docket No. 1479.

Decided August 15, 1921.

**Approval of Ordinance Permitting Duplication of Telephone Facilities
Refused — Duplication of Facilities Held to Increase Cost to
Public and Decrease Efficiency of Service.**

REPORT.

Application was made by the Perry County Telephone and Telegraph Company for the Commission's approval of a contract evidenced by an ordinance enacted the second day of September, 1919, by the chief burgess and town council of the borough of Marysville, Perry County, Pennsylvania, and its acceptance by the applicant, wherein and whereby the petitioner, its successors and assigns, is permitted to erect and maintain in the streets and alleys of the borough and over and under the same, a line or lines of poles and wires with all the necessary and usual fixtures therefor, under certain regulations and restrictions as may be necessary for the operation of a telephone and telegraph business.

The applicant, in its petition, stated that it is the lessee of certain lines of wires from the borough of Duncannon, Pennsylvania, to Marysville, Pennsylvania, and that for a

number of years it has operated telephone lines in the borough of Marysville. These leased lines have become so heavily loaded with subscribers principally located in Penn Township (between the boroughs of Duncannon and Marysville), that it is unable to render proper or adequate telephone service to those served by these lines.

The Cumberland Valley Telephone Company of Pennsylvania filed a protest against the granting of a certificate of public convenience, and contended that the applicant had no power under its charter to conduct a telephone business within the limits of the borough of Marysville. The protestant's petition is that pursuant to the authority contained in its charter, and pursuant to an ordinance granted by the borough of Marysville on the seventeenth day of September, 1906, the Eastern Perry Telephone Company, a constituent company of the Cumberland Valley Telephone Company of Pennsylvania, erected its poles, wires, switchboard and other telephone facilities in the borough of Marysville and it or its predecessor company, has furnished adequate and satisfactory telephone service to the residents thereof for the past fifteen years and is able and willing, financially or otherwise, to provide for any and all additional telephone service in the borough. It has further contended that public necessity does not require the entrance of a competing company in the borough, for the purpose of rendering telephone service.

At the hearing before the Commission it developed that the applicant proposes to install a telephone exchange in the borough of Marysville, and while it does not anticipate soliciting new subscribers to its service, it will be equipped to render telephone service to all applicants and will be in actual, if not active, competition with the protestant.

While it is true that the applicant is now engaged in rendering telephone service to 8 subscribers on its system within the corporate limits of the borough of Marysville, it has not enjoyed by ordinance any right so to do; whereas, the protestant, by reason of an ordinance granted to one of its constituent companies has had such a right since

1906. The protestant has an established telephone exchange and has developed its business to such an extent that on January 1, 1921, it had 138 subscribers connected to its Marysville exchange; 80 of these being located within the limits of the borough.

The applicant, in 1910, acquired by agreement with The Bell Telephone Company of Pennsylvania certain Bell telephone rights in Perry County, and pursuant to this agreement took over certain subscribers of the latter company, among which were the 8, or very near that number now served by it in the borough of Marysville. These subscribers are connected to the applicant's telephone exchange at Duncannon by two pairs of wires leased from the Bell Telephone System. Along the route of these leased wires in Penn Township, 19 additional subscribers to the applicant's service are connected, making a total of 26 subscribers connected to the two leased telephone circuits.

In determining whether the Commission should grant or withhold its approval of this application, the most important question involved is the necessity for the applicant's service for the accommodation and convenience of the public. But one witness appeared on behalf of the applicant to offer testimony with respect to the necessity of the additional service in the borough of Marysville, while on the other hand several witnesses appeared on behalf of the protestant to testify to the adequacy of the service now rendered by the Cumberland Valley Telephone Company of Pennsylvania in the borough of Marysville.

It is neither the intent of the Public Service Company Law nor the policy of the Commission to permit such duplication of service and equipment of public utilities as would result in increasing the burden of cost to the public, and in decreasing efficiency of service to the public. Obviously this would be the result in a case such as that presented in this application. Inconvenience to a few outlying subscribers of a telephone company is not a situation that may be properly weighed against the disadvantage to the general public interest involved in permitting a second

telephone company to enter territory already occupied and served by another.

This Commission, therefore, finds that the approval of the contract is not necessary or proper for the service, accommodation, convenience, or safety of the public, and that the application should be refused. An order will issue accordingly.

ORDER.

This matter being before The Public Service Commission of the Commonwealth of Pennsylvania upon petition and protest on file, and having been duly heard and submitted by the parties, and full investigation of the matters and things involved having been had, and the Commission having on the date hereof made and filed of record a report containing its findings of fact and conclusions thereon, which said report is hereby approved and made a part hereof;

Now, to-wit, August 15, 1921,

It is ordered, That the prayer of the petition for a certificate of public convenience in this proceeding be, and the same is hereby, refused and the application dismissed.

August 15, 1921.

UTAH.

Public Utilities Commission.

In re APPLICATION OF THE EASTERN UTAH TELEPHONE COMPANY FOR AUTHORITY TO PLACE IN EFFECT CERTAIN REVISED RULES, REGULATIONS, RATES, ETC.

Case No. 438.

Decided February 16, 1922.

Toll Rates of One Cent Per Air Line Mile in Effect Before Federal Control Reestablished.

REPORT.

In an application filed June 10, 1921, the Eastern Utah Telephone Company, a corporation, organized and existing under and by virtue of the laws of the State of Utah, and engaged in the general telephone business within the territory comprising Carbon, Emery and Duchesne Counties, with its principal place of business in Price, Utah, alleges that prior to government control of the telephone companies, the Eastern Utah Telephone Company had effective certain charges for long distance service, which were at the rate of one cent per air line mile, a complete schedule of said rates being on file with the Commission.

Applicant further alleges that when the government assumed control of the telephone companies, the rate for long distance service was reduced from one cent per air line mile to eight mills per air line mile; that on account of the confusion incident to the change of control, government rates were kept in effect after the telephone companies were returned to private control, resulting in a great loss to the telephone company; that since the rate of one cent per air line mile is the rate on file with the Commission, the Eastern Utah Telephone Company requests that the charges arrived at on this basis, a complete schedule of said charges being attached to the application and known as Schedule B, be accepted as the rate for station-

to-station messages; that applicant be permitted to make standard charges in addition thereto, for person-to-person messenger and appointment messages; also be permitted to make standard reductions for evening and night rate messages; all in accordance with the standard rates shown in the general tariff.

Applicant further requests that it be permitted to file standard rules and regulations governing its operations, a copy of which is attached to the petition and known as Schedule A, be accepted by the Commission as the general rules and regulations applicable to the company's service, and asks that early action be had on the petition, on account of the need of increased revenues which said schedules would yield.

This case came on regularly for hearing before Commissioners Heywood and Stoutnour, at Price, Utah, September 8, 1921. No one appeared in protest to said application. Mr. Rex Miller, manager of the Eastern Utah Telephone Company, testified in support of his application and introduced statements showing plant account and earnings.

Testimony was also introduced as to the effect upon the service of adopting the proposed rules and regulations of applicant, after which the case was submitted for consideration and decision.

Mr. Miller testified that no dividends had been paid since 1918; in 1918, 5 per cent. was paid; 8 per cent. in 1917; 10 per cent. in 1916 and 10 per cent. in 1915. In other words, for three years there have been no dividends. The surplus accumulated, as shown on its balance sheet, is very modest, when considered in connection with this fact.

Mr. Miller testified that his depreciation reserve was temporarily invested in the property, but that he was building a new telephone exchange to take the place of the old one, and reconstructing the telephone equipment; that

a number of lines would have to be replaced in a short time, and that the cost of the old plant will be taken out of the depreciation reserve; that of notes payable, the sum represented by said notes is invested in the plant; accounts payable represents current expenses and purchases for material.

Exclusive of the depreciation reserve, which must be, of course, as shown by the testimony, used in the very near future for replacement, there is more than \$80,000 invested in the plant. Mr. Miller testified that he contemplated reincorporating and selling stock, as soon as conditions are favorable. There was no reproduction cost of the property presented. The costs that were presented represent the actual cost of the plant. The Commission must fix rates upon the actual value of the property, rather than upon capitalization. This is in line with competent court authority, including that of the court of highest jurisdiction.

Since the hearing was had, applicant was asked and presented balance sheet as of January 1, 1922, as follows:

<i>Assets</i>		<i>Liabilities</i>	
Cash.....	\$1,892 19	Capital stock.....	\$42,020 00
Due from subscribers and agents.....	3,317 54	Notes payable.....	26,500 00
Cash advanced to employees.....	15 00	Accounts payable.....	7,791 85
Plant and equipment.....	128,781 87	Reserve for depreciation	49,234 34
		Prepayments.....	380 80
		Surplus, January 1, 1921	7,421 65
		Net income, year 1921	627 96
	<u>\$133,976 60</u>		<u>\$133,976 60</u>

REVENUES AND EXPENSES.

Revenues:

Exchange revenue.....	\$20,762 20	
Toll revenue.....	29,621 40	
Messenger revenue.....	1,443 85	
Miscellaneous revenue.....	3,064 75	
		<u>\$54,882 20</u>

Expenses:

Maintenance:

Repair of wire plant.....	\$2,958 20	
Repair of equipment.....	1,272 84	
Station removals and changes.....	163 50	
Depreciation.....	6,599 70	
Other expenses.....	4,658 39	
		<u>\$15,652 63</u>

Traffic:

Operators' wages.....	\$17,566 90	
Messenger expense.....	1,040 35	
Other expenses.....	1,279 98	
		<u>19,887 23</u>

General:

General office salaries.....	\$6,730 30	
Other general expenses.....	6,698 10	
		<u>13,428 40</u>
Taxes.....	2,544 88	
Interest.....	1,566 62	
Uncollectable bills.....	1,174 48	
		<u>54,254 24</u>
NET INCOME.....		<u><u>\$627 96</u></u>

This balance sheet shows a net return of \$627.96 for the year 1921. We think the amount to be set up for depreciation for next year may be reduced somewhat, but, due to the extensive rebuilding of the exchange equipment and replacement of lines, as heretofore mentioned, we think a reasonable amount to be set up for 1922 should be \$5,137. The increase asked for in toll rates, it is believed, will yield increased revenues in the sum of approximately \$2,400.

There were no protests to this increase, and a full and free hearing has been had. The applicant, as has been stated, seeks to return its toll rates to the pre-war level. This utility, in this instance, was given a reduction instead of an increase in its revenues, through the application of the Burleson rates, and we find that in order for the utility to properly serve the public and carry on its business, the change should be allowed. It may file its schedule, upon ten days' notice to the public, carrying pre-war

rates, and may also file its general rules and regulations as the general rules and regulations applicable to its business, and they will be accepted tentatively by the Commission, to be tested by the actual experience of the company.

An appropriate order will be issued.

ORDER.

This case being at issue upon petition on file, and having been duly heard and submitted by the parties, and full investigation of the matters and things involved having been had, and the Commission having, on the date hereof, made and filed a report containing its findings, which said report is hereby referred to and made a part hereof,

It is ordered, That the application be granted and that applicant, Eastern Utah Telephone Company, be, and is hereby, permitted to publish and put into effect, upon ten days' notice to the public and to the Commission, rates for telephone service which will not exceed those maintained prior to federal control of wire lines.

Ordered, further, That applicant may also file its general rules and regulations governing its telephone service.

Ordered, further, That such rules be tentatively accepted by the Commission, to be tested by the actual experience of the company.

Ordered, further, That publications naming such rates, rules and regulations shall bear upon the title page the following notation:

"Issued upon less than statutory notice, by authority of the Public Utilities Commission of Utah, order dated February 16, 1922, Case No. 438."

February 16, 1922.

WASHINGTON.

Department of Public Works.

**W. A. WESTOVER *et al.*, MAYOR AND CITY COMMISSIONERS *v.*
THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY.**

No. 4946.

Decided February 3, 1922.

**Petition Against Telephone Company Dismissed Where Matters Com-
plained of Were Already Subject to Investigation in Separate
Cause.**

ORDER OF DISMISSAL.

In this cause the petitioners filed with the Public Service Commission of Washington on December 17, 1919, their petition and complaint challenging the reasonableness of the existing rates of The Pacific Telephone and Telegraph Company as the same applied and were charged in the city of Chehalis.

That said petition was filed during the period of federal control of lines of The Pacific Telephone and Telegraph Company and for that reason the Public Service Commission had no jurisdiction nor authority at that time to hold a hearing or enter an order fixing said rates.

That on the twenty-first of January, 1922, the Department of Public Works of Washington on its own motion filed a complaint against The Pacific Telephone and Telegraph Company, respondent herein, in which complaint all of the rates, rules and regulations and contracts of that company were challenged as to their reasonableness and fairness, and it appearing that the matter and things alleged in the complaint in this action No. 4946 will be the subject of investigation and determination in Cause No. 5344 and that there exists no necessity for a separate hearing in this cause, and the same should be, and is hereby, dismissed without prejudice to the petitioners in this case presenting such testimony as they have or will have in Cause No. 5344.

Witness, the Department of Public Works this third day of February, 1922.

WISCONSIN.

Railroad Commission.

In re APPLICATION OF THE LA CROSSE INTERURBAN TELEPHONE COMPANY FOR AUTHORITY TO ISSUE BONDS.

S. B.-1744.

Decided January 18, 1922.

Issue of Bonds Authorized.

CERTIFICATE.

Be it remembered, that on the fourteenth day of January, 1922, the La Crosse Interurban Telephone Company, a public service corporation, applied to the Railroad Commission of Wisconsin for authority to issue \$44,500 of 7 per cent. first mortgage bonds, and for that purpose filed with the Commission a statement duly signed and verified by its president and secretary, as required by Section 1753-9 of the Statutes.

That it appears from said statement that the corporation desires to issue \$44,500, par value, of its 7 per cent. first mortgage bonds for the purpose of redeeming and retiring \$14,500 of its first mortgage 6 per cent. bonds and \$30,000 of its second mortgage 6 per cent. bonds and all for purposes properly chargeable to capital account.

That said corporation duly and satisfactorily complied with the requirements of said statute, and the Commission, after considering said statement and the evidence before it, found and determined that the proposed issue of bonds is lawful and for lawful purposes, and reasonably necessary for the purposes of the corporation.

Now, therefore, the Railroad Commission of Wisconsin hereby authorizes the La Crosse Interurban Telephone Company, a Wisconsin corporation, to issue bonds as follows:

Forty-four thousand five hundred dollars, par value, of its 7 per cent. first mortgage twenty year bonds, maturing December 1, 1941.

Said bonds shall be issued at the par value thereof for the purpose of redeeming and retiring the \$44,500 of underlying bonds mentioned in the second paragraph of this certificate.

Said La Crosse Interurban Telephone Company shall file with the Commission within thirty days after the issuance of the bonds for the purposes herein authorized, a verified statement showing the facts in relation thereto.

Said La Crosse Interurban Telephone Company shall not issue the bonds herein authorized until this certificate shall have been recorded upon the books of the corporation.

In witness whereof, these presents have been signed and attested by the Railroad Commission of Wisconsin at its office in the Capitol in the city of Madison, Wisconsin, this eighteenth day of January, 1922.

J. A. MARKHAM *et al.* v. INDEPENDENCE TELEPHONE COMPANY AND WESTERN WISCONSIN TELEPHONE COMPANY.

U-1705.

Decided January 21, 1922.

Terms and Conditions for Physical Connection Between Exchanges Prescribed.

OPINION AND DECISION.

On March 23, 1920, the Commission entered its order* upon the complaint of J. A. Markham, *et al.* requiring that the Western Wisconsin Telephone Company and the Independence Telephone Company make physical connection between their respective switchboards at Independence for the handling of both local and long distance messages. Jurisdiction was retained for the purpose of fixing terms and conditions upon which such connection

* See Commission Leaflet No. 101, p. 2090.

should be made and used in the event of failure of the parties to agree thereon.

It having become evident that the parties could not agree upon the terms for the connection and its use, a hearing was held at Madison, May 6, 1921, relative to terms and conditions upon which the physical connection should be made and used. *J. C. Gaveney*, president of the Western Wisconsin Telephone Company, appeared in its behalf. There was no other appearance.

At the hearing the Western Wisconsin Telephone Company suggested that the connection be made upon the basis existing at Arcadia where there is a physical connection between the system of the Western Wisconsin Telephone Company and that of the Tamarack Telephone Company. It was stated further that similar agreements exist between the Western Wisconsin Telephone Company and other companies with which it has physical connection. The Commission has carefully examined the contract between the Western Wisconsin Telephone Company and the Tamarack Telephone Company and has considered all its terms and conditions. It has also had in mind terms and conditions fixed for physical connection in other cases and concludes that the terms and conditions provided in the contract between the Western Wisconsin Telephone Company and the Tamarack Telephone Company are reasonable and should be made applicable to the connection at Independence between the Western Wisconsin Telephone Company and the Independence Telephone Company.

It is, therefore, ordered, That the physical connection heretofore ordered by the Commission under date of March 23, 1920, between the switchboards of the Western Wisconsin Telephone Company and the Independence Telephone Company at Independence shall be completed and placed in operation not later than March 1, 1922.*

* See Commission Leaflet No. 101, p. 2090.

It is further ordered, That the terms and conditions for making such physical connection and for its use shall be as follows:

1. The connection shall be made by means of a clear metallic circuit.

2. Each company shall pay one-half of the cost of making such connection and, unless otherwise agreed upon between the companies, the material and labor shall be furnished by the Western Wisconsin Telephone Company and the Independence Telephone Company shall reimburse the Western Wisconsin Telephone Company for one-half of the cost of making the connection.

3. Local messages shall be transmitted over this line between the switchboards of the two companies in Independence at a rate of 5 cents per message to subscribers of either company at its Independence exchange and at a rate of 10 cents per message to non-subscribers to the Independence exchange of the company on whose system the message originates.

4. For toll messages transmitted over this line originating with the exchange of the Independence Telephone Company the Western Wisconsin Telephone Company shall pay to the Independence Telephone Company

(a) Ten per cent. of the amount of toll due on the message, not to exceed a 10-cent payment on any one message, for messages passing wholly or in part over lines of the Wisconsin Telephone Company or lines of the Tri-State Telephone and Telegraph Company, and

(b) For messages passing over lines of the Western Wisconsin Telephone Company or messages passing over the lines of the Western Wisconsin Telephone Company and those of the La Crosse Telephone Company or of the La Crosse Interurban Telephone Company, 25 per cent. of the amount of toll applicable to the message.

5. For toll messages originating with the exchange of the Western Wisconsin Telephone Company and passing over this line, the Independence Telephone Company shall pay the Western Wisconsin Telephone Company 25 per cent. of the total amount due on such messages.

6. Each company shall collect from its patrons the full amount due on any messages passing over the line. All amounts collected by either company for local messages from subscribers shall be paid to the other company. All amounts collected by either company for local messages from non-subscribers of its Independence exchange shall be divided equally between the companies. All amounts collected by the Independence Telephone Company for toll messages passing over this line shall be paid to the Western Wisconsin Telephone Company except such proportion as is due to the Independence Telephone Company under the terms of this order and all amounts collected by the Western Wisconsin Telephone Company for toll messages passing over this line on to the toll system of the Independence Telephone Company shall be paid to the Independence Telephone Company except such portion as is to be retained by the Western Wisconsin Telephone Company under the terms of this order.

7. No commission shall be paid to either telephone company for long distance messages passing over this line and terminating in its Independence exchange.

8. Tickets shall be made for all messages and settlements shall be made monthly based on the business transmitted over the line up to midnight of the twentieth day of the month, settlement to be made not later than the end of the month.

Dated at Madison, Wisconsin, this twenty-first day of January, 1922.

A. G. BECKER *et al.* v. ALLENTON-KOHLVILLE TELEPHONE
COMPANY AND WASHINGTON COUNTY TELEPHONE
COMPANY.

U-2474.

Decided February 15, 1922.

**Physical Connection Between Exchanges Ordered — Toll Rates
Established.**

OPINION AND DECISION.

The petition, which is signed by 52 persons requests that the Allenton-Kohlsville Telephone Company and the Washington County Telephone Company be required to establish and maintain a physical connection for the transmission of telephone messages between Allenton and Slinger (Schleisingerville).

A hearing was held at Madison on May 4, 1921, at which A. G. Becker appeared for the petitioners, L. G. Barnes, M. H. Schmidt, Philip Schellinger for the Allenton-Kohlsville Telephone Company, E. G. Klemp for the Washington County Telephone Company and L. G. Barnes appearing especially for the Wisconsin Telephone Company.

At this hearing it was agreed that the matter would be adjourned for sixty days to permit negotiations between the two respondent companies and the Wisconsin Telephone Company looking toward an adjustment of the matter. No mutually satisfactory agreement was reached, however, and the case was submitted with written statements from the Allenton-Kohlsville Telephone Company and the Wisconsin Telephone Company commenting upon the facts as presented.

The testimony shows that Slinger and Allenton are located approximately 7 miles apart by railroad and that the intervening territory is served by both companies with some little overlapping, the lines connected with the Slinger exchange extending somewhat more than one-half of the distance toward Allenton. One of the Allenton lines, which is rather heavily loaded, has a direct connec-

tion with a line leading to the Slinger exchange, the latter having only a few subscribers served therefrom. Subscribers on this joint line can call either Slinger or Allenton direct without additional charge. All other patrons on the two systems are obliged to call by toll over the lines of the Wisconsin Telephone Company, going through the Hartford exchange in order to be connected with the parties living on the other system. The toll rate in effect is 10 cents station-to-station, and 15 cents party-to-party.

It was shown that there are a considerable number of residents now without telephone service who might desire to receive service if a direct and convenient connection were possible between the two exchanges. It was also shown that in the territory between Allenton and Slinger there are patrons of both systems who have considerable occasion to communicate with persons served by the opposite exchange, and that the existing situation is relatively inconvenient for them. It was alleged that at times there is considerable difficulty in securing a prompt connection via the Hartford exchange.

The records of toll calls submitted by the Allenton-Kohlsville Telephone Company show that for the period from December 21, 1920, to December 21, 1921, there were a total of 735 calls made from Allenton to Slinger, for which the revenue amounted to \$95.60 or an average of 13 cents per call. It is assumed that the traffic in the reverse direction is substantially similar.

The cost of constructing a clear line between the two exchanges was estimated by the Allenton-Kohlsville Telephone Company at \$1,201.73. It appears, however, that it might be possible by making the connection between the lines on the road nearest to Cedar Lake, to somewhat reduce this cost. The above estimate was submitted at the time of the hearing and it is a matter of common knowledge that construction costs have been somewhat reduced since that time.

The Commission is of the opinion that public convenience and necessity require direct physical connection between

the Allenton and Slinger exchanges by means of a clear line; that such physical connection will not result in irreparable injury to the owners or other users of said exchanges, nor in any substantial detriment to the service. In view of the character of the traffic between these two exchanges, it is felt that a toll charge of 5 cents per message should be sufficient to reasonably take care of the investment necessary. While it is impossible to predict with accuracy the traffic under new conditions, it is believed that with a 5 cent toll and with a direct connection, the traffic will be materially increased. The establishment of such a direct connection with a 5 cent toll will make it possible to eliminate the discriminatory condition which now exists by reason of the connection of two-party lines of the respective systems. These party lines should be disconnected as soon as the clear line is placed in operation.

It is, therefore, ordered, 1. That the respondents, the Allenton-Kohlsville Telephone Company and the Washington County Telephone Company establish and maintain a direct physical connection between their respective exchanges at Allenton and Slinger by means of a clear metallic line to which no subscribers' instruments are connected.

2. That each of said companies shall construct and maintain at its own expense the portion of said clear line within the limits of its existing system or to such point as may be mutually agreed between the two companies.

3. That each of said companies shall establish and file a toll rate of 5 cents per message between Allenton and Slinger.

4. That each of said companies shall retain the tolls collected at its exchange, subject to revision by mutual agreement or in a proper proceeding after a reasonable trial period.

5. That upon the placing in operation of the physical connection above ordered said telephone companies shall forth-

with disconnect their respective party lines which are now enjoying the service of both exchanges without additional charge.

6. That the physical connection as above ordered shall be completed and placed in operation on or before June 1, 1922.

Dated at Madison, Wisconsin, this fifteenth day of February, 1922.

CANADA.

Board of Railway Commissioners.

In re APPLICATION OF THE BELL TELEPHONE COMPANY OF
CANADA FOR INCREASE IN TELEPHONE TOLLS.

Case No. 955 — Order No. 32130.

Decided February 16, 1922.

**Burden of Showing Proposed Tariff is Suitable Held to be on Company
— Not Function of Board to Initiate a Tariff but Only to Pass
on Reasonableness of Proposed Tariff — Proposed
Rates Found Discriminatory and No Emer-
gency Existing Application Refused.**

Applicant, alleging that its present rates did not produce sufficient revenue to meet its dividend requirements; that due to inadequate earnings it had found it impossible to obtain new money required to extend its facilities; that it had approximately 16,000 applications for service which it could not supply owing to general shortage of equipment; that unless large capital outlays were immediately arranged for the situation would become serious and the public would be unable to obtain adequate telephone service, requested increases in its telephone tolls varying from 2 per cent. to 95 per cent. and averaging approximately 20 per cent.

The Board found that by judgment entered April 24, 1919, and revised May 13, 1919,* applicant had been granted an increase in exchange rates of approximately 10 per cent., and that by order entered April 13, 1921,† a further increase of 12 per cent. had been granted, both of which increases were regarded as temporary measures to meet existing emergency conditions; that since the present application was filed certain economies had been placed in effect by the company which had resulted in the decrease of operating expenses for the last four months of 1921 in the amount of \$259,812.68, or at the rate of \$779,438.04 for a projected year; that the company had not before filing this application so adjusted its business and instituted reasonable economies, which in their result would have shown that the temporary increase granted in April of 1921 † was sufficient to enable it to operate without any further increase, until a suitable rate schedule could have been prepared for the approval of the Board; that no emergency now existed; that this application therefore became an application for approval of a new tariff of rates and not a temporary emergency application.

* See Commission Leaflet No. 91, p. 609.

† See Commission Leaflet No. 114, p. 1651.

The Board further found that the present tariffs were not in accord with existing conditions, and exhibited inequalities and some discriminations which showed on their face that certain districts and cities were paying more for service than others under substantially similar conditions; that no effort appeared to have been made on the part of the company to adjust the rates in any scientific way to the value of the service to the subscriber, having regard to the population of the telephone area, the number of stations, or the cost of service therein; that the Board was asked to adopt the proposed tariffs as a whole and thereby to perpetuate these inequalities and discriminations; that there was not before the Board sufficient data to enable it to reconstruct, amend, or alter the present tariff offered for approval, or to initiate a tariff providing rates in substitution for that now proposed; that the company's estimates of its additional requirements were erroneous and excessive; that it did not appear that the company had made sufficient effort in the direction of obtaining the new money required to finance its operations; that insofar as the net earnings fell short of requirements they could have been substantially met by more speedily inaugurating the economies in operating costs placed in effect subsequent to the filing of the application herein.

Held: That the burden of showing that a proposed tariff was a suitable one and such as would meet the various conditions of traffic with which it was presumed to deal in its operation was upon the company, and that the company had not discharged that burden with regard to the present proposed tariff and had not produced satisfactory evidence that the proposed tariffs were just and reasonable for the service furnished;

That it was not the function of the Board to initiate a tariff, and that its duty generally was to examine, approve or reject proposed tariffs, having regard to whether or not such proposed tariffs were just and reasonable;

That no evidence being before the Board to justify the tariff of rates offered for approval, but on the contrary such tariff being admittedly out of line, discriminatory and objectionable, and no emergency existing, and no circumstances having been shown which would justify any temporary or emergency increase in rates, the application should be refused.

JUDGMENT.

The application of the company is in the following form:

"On July 23, 1921, The Bell Telephone Company of Canada applied to the Board of Railway Commissioners, for an order, under Section 375 of the Railway Act 1919, 9-10 George V., Chapter 68, authorizing the undermentioned increases in telephone tolls which it is presently authorized to charge, which application is summarized as follows:

(1) That the rates authorized do not produce sufficient revenue to meet its dividend requirements and therefore do not carry out the intent of the judgment and order rendered by the Board on April last.

(2) That it has found it impossible to obtain the new money required to enable it to extend its facilities, owing to inadequate earnings.

(3) That it has approximately 16,000 applications for service which it cannot supply owing to general shortage of equipment, and

(4) That unless large capital outlays are immediately arranged for, the shortage of equipment will become so serious and so prolonged that the public will be seriously handicapped through inability to obtain telephone service."

There is then submitted, for the approval of this Board, a general tariff of rates for exchange service involving substantial increases in telephone tolls extending over the whole of the exchange area. The increases vary from 2 per cent. to 95 per cent., and would, on the whole, average, perhaps, 20 per cent. The percentage increase resulting from the proposed tariff is not the immediate and important factor in deciding as to whether it is such a just and reasonable tariff as, under the Railway Act, should be approved by this Board, having regard to the conditions *and service* to which it is proposed to apply it.

No changes are proposed to be made for rural service, long distance service, service connection charge, or any other charges, for which the tariffs are on file with this Board, other than those mentioned in the application.

The reasons submitted throughout the hearing, in support of the application for the approval of the tariff are, generally, those appearing in the application itself.

The onus of establishing the fairness, justice, and reasonableness of such a tariff, as is offered for approval of the Board, must rest upon the company proposing it. Beyond the fact that it is stated, on behalf of the company, that by means of the proposed new tariff, which the Board is asked to sanction, the company will be able to derive sufficient additional money from subscribers to meet an alleged deficit in operation, I am unable to find in the evidence, any specific or cogent reasons for the particular tariff changes proposed.

Before dealing further with the proposed tariffs it may be useful to consider this proposal in relation to the history of previous applications for increases in rates made to the Board by the company in recent years.

The first general application, by this company, for increased tolls, came before the Board in 1918, and after a lengthy hearing resulted in a judgment of the Board, dated April 24, 1919,* providing for a 10 per cent. increase in exchange rates, a revised increase in long distance service, service connection charges, removals, etc., as set forth in the Board's order of May 13, 1919.* That application was based entirely upon emergency conditions resulting from the war, and in consequence of the sharp advances in operating costs. The Board authorized the percentage increase in exchange business as a temporary and emergency measure, retaining control of the case with the expressed understanding that revision of the emergency tolls, so authorized, should take place when the emergency conditions justifying them had ceased to exist.

By a subsequent application, made in 1920, the telephone company represented to the Board that the cost of labour and materials, incident to the operation of its business, had continued to advance rapidly since the issuance of Order No. 264,* and it was stated that as a result the increased rates allowed upon the previous application had proved insufficient to provide for the applicant's requirements. The company, in that application, proposed some changes in the tariff, but notably a substantial change as affecting five of the largest cities within the telephone area, by the introduction of the measured rate system. That application, like the former one, was treated as one of emergency, and after a careful and exhaustive hearing by the Board it was decided, by its judgment, dated April 1, 1921,† that temporary relief as against this emergency should be granted in the form of an increase of 10 per cent. in the then existing

* See Commission Leaflet No. 91, p. 609.

† See Commission Leaflet No. 114, p. 1651.

exchange rates. The application of the company, as to the measured service, was disallowed, it being found that there was no evidence to support it. The tariff involving increases for long distance and service connection charges was approved, and an increase of 10 per cent. in the tariff of rates for exchange service and charges for miscellaneous equipment and service was allowed. The company stated early in the hearing of that case that it had fallen short of earning dividend since May, 1920, by \$2,788,000. This statement is confirmed by Mr. Sise in his evidence (Vol. 378, p. 15624) but, in arriving at the amount of the deficit to be dealt with by the judgment the Board found that the amount of same was in round figures \$1,000,000, or to be exact, \$949,867. The accounts taken were upon actual and projected revenues, from May, 1920, to May, 1921.

In disposing of the application and in delivering the judgment of the Board, the Assistant Chief Commissioner said (Section XV) :

"On the whole, after consideration of the different factors, I am of the opinion that the matter must be treated as one of emergency, and, therefore, for *temporary relief* only."

Before order was made upon the judgment above-mentioned, further representations being made by the telephone company, representing an improper basis of computation in reaching the necessary amount required by the company to meet the emergency condition complained of, the amount of the temporary emergency increase of 10 per cent. was increased to 12 per cent., and General Order No.* 338, dated April 13, 1921, was issued, authorizing the above-mentioned increase, and declaring that the increases thereby allowed should "*be regarded as a temporary measure, to meet an existing emergency situation*"; the applicant company being thereby required to file monthly reports, with such further special reports, if any, as may, from time to time, be called for by the Board.

* See Commission Leaflet No. 114, p. 1651.

The city of Toronto appealed, under the appropriate clauses of the Railway Act, to the Governor in Council against the above judgment, upon specific grounds, alleging error by the Board in dealing with the depreciation reserve fund of the telephone company. This appeal was argued, on the fourteenth day of June, 1921, and judgment was reserved, and, while the said appeal was under consideration by the Privy Council of Canada, the present application was launched.

The appeal to the Privy Council was not disposed of, but was referred to this Board for disposition along with the present application.

The letter, dated July 23, 1921, which is referred to in, and is the basis of this application, alleges that the judgment * of the Board of April has not been productive of sufficient revenue to enable the company to provide for its operating requirements, and that letter based upon a consideration of earnings for May and June, which the company represented had resulted in a large deficit, asked that the order granting the 12 per cent. increase be so amended that rates will be authorized which would produce a revenue resulting in net earnings of 10 per cent. on the company's issued capital. It is stated in that letter, by the company, that the company's estimate as to the increase required in exchange revenue, in order to place the company in the position of obtaining sufficient additional capital to maintain additional service, and provide for plant additions, should be increased by \$1,357,500. In, and by this informal application, of July 23, the Board was asked to permit a further percentage increase in order to provide the amount required. This, the Board declined to do, upon the representations then before it, and the formal application now before the Board to approve a new tariff of exchange rates — not a percentage increase of those then and now in force — resulted in and is, the application now to be dealt with and disposed of upon the evidence before us.

* See Commission Leaflet No. 114, p. 1651.

The company proceeded, immediately after the last judgment,* that of April 12, 1921, to enter the market for additional money by increasing its capital stock by \$5,725,000, and offering this in April and May (the first circular filed is dated in April, 1921) at par. Indifferent success was met with—probably due to unfavourable market conditions at the time of offering.

The letter of July 23, quotes a statement from a financial firm with whom negotiations had been opened as regards this stock, as follows:

"The undersigned syndicate feel that owing to the condition of your company's earnings and the unsatisfactory attitude of the Board of Railway Commissioners, that a satisfactory sale of your common stock could not be accomplished, unless your directors can assure us that such operating economies can be effected or increased revenues obtained so that the present 8 per cent. dividend on your stock can be maintained."

It is a subject of passing comment, perhaps, that this letter was not quoted originally, in its entirety. It was partially quoted originally to support the view that the Board's judgment of April 1 * was so unsatisfactory that it had prevented the company from financing its requirements thereupon. The concluding paragraphs, however, obtained upon cross-examination of Mr. Sise, read as follows:

"Q. Why did you not read the rest of the letter?"

A. What is that?"

Q. The letter continues:

"However, if your company wishes to continue its construction programme this syndicate would favourably consider the purchase of an issue of 7 per cent. bonds maturing April 1, 1925, 25 per cent. payable as to principal and interest * * *."

A. I only read an extract.

Q. The last paragraph of the letter reads:

"As pointed out to you by Sir Charles Gordon yesterday, this syndicate would like to be of every service to your company and glad to consider any plan your executive committee might suggest."

This offer was never followed up by the company. The efforts of the company to finance did not impress me as

* See Commission Leaflet No. 114, p. 1651.

having been very insistent and thorough. The balance of the issue not subscribed by its shareholders was not offered to the public. A prominent financial broker gave evidence at a previous hearing that the common stock of the company was a good investment — but though the company was aware of this statement, by a responsible man, that firm, at least, was never approached on the subject of underwriting. The impression on my mind, from the evidence, as to these alleged disappointments in financing was that as disappointment might possibly justify an immediate return to the Board, for a further increase in rates, it could be borne with serenity as being not without its compensations.

The suggestions in the broker's letter, above quoted, as to operating economies by the company increasing the prospects of financing, seem to have been acted upon tardily, and after this application was launched, Mr. Sise referring to this subject (Vol. 378, pp. 508 *et seq*) says — that instructions as to operating economies, given in July became effective only in October and November. Mr. Scott, general superintendent of traffic of the company, in his evidence refers to the economies in number of employees, as follows:

“ I reduced my staff in August by about 100 employees.

Mr. Osler: In August? A. Yes. I reduced my staff in August by about 100 employees. I reduced the staff in September by a further 200, and in October by a still further 200, roughly, 500 employees, the reduction being obtained at the expense of loading our remaining employees of the company. That reflects in the costs of September and October.

Commissioner Boyce: Reduces the cost?

A. It reflects in the cost.

O. Substantial reductions?

A. Absolutely.

Commissioner Boyce: Why did you not start in April?

A. You will have to ask the executive.”

These economies would not be reflected in the company's accounts until two, perhaps three, months later, and if persisted in systematically, though with due regard to maintaining efficiency of service, would, from that time forward.

be more marked in their effect on the finances of the company.

The application, now before the Board, was launched before these economies were entered upon. The economies were substantial and did not begin to reflect themselves in the accounts until a period of some two months later; yet, without waiting even to commence any economies (such as by later action has been demonstrated to be possible), this application is pressed upon the Board's consideration.

Let us see the results of these economies as they gradually became effective, as shown in the company's statement of operating costs so far issued:

OPERATING EXPENSES—MAY TO DECEMBER (INCLUSIVE), 1921, AS
COMPARED WITH SAME MONTHS IN 1920.

	1921	1920	Increase	Decrease
May.....	\$854,871 57	\$771,777 97	\$83,093 60	.....
June.....	821,634 89	769,196 19	52,438 70	.....
July.....	826,801 61	821,747 36	5,054 25	.....
August.....	819,323 41	823,202 71	.....	\$3,879 30
September.....	774,465 36	823,076 22	.....	48,610 86
October.....	760,794 73	858,848 32	.....	98,053 59
November.....	750,534 61	823,159 84	.....	72,625 23
December.....	777,440 00	817,963 00	.....	40,523 00
	<u>\$6,385,866 00</u>	<u>\$6,508,971 61</u>	<u>\$140,586 55</u>	<u>\$263,691 98</u>

The statement is illuminating. Commencing from August last, the month after the application for the new schedule of increased rates was launched, it will be seen that as a result of economies ordered in July, the operating expenses began to decline, and as a result of five months' operation a decrease of \$263,691.98 was effected. I think it is fair to presume that what results, in this respect, were possible during these months were possible, at the option of the company, for many months preceding this period. The evidence shows that the economies ordered in July did not become effective until October and November. Leaving out August, therefore, as a negative month so far as results of economies ordered the preceding month were concerned, the decrease in operating costs effected in the four months of September to December, inclusive, was \$259,812.68, or a

monthly average of \$64,953.17, or, projected for a year, \$779,438.04, or an amount about equal to the annual bond interest. Had these economies been practised by the company before, instead of after, the proposition to the underwriting firm, their answer would doubtless have been different. In the light of results, as illustrated, the strictures in their letter as to "the unsatisfactory attitude of the Board of Railway Commissioners" are hardly justified. Their broad hint as to economies in operation is more in point, as evidenced by results when, at last, those economies were instituted.

The conclusion I arrive at on the above facts is that the telephone company did not, before launching this application, so readjust its business, and institute proper and reasonable economies as would in their result have shown that the temporary increase granted in April was sufficient to enable it to carry on without any further increase until a stable rate schedule could be prepared for approval of the Board.

The present application is not an emergency application. There is no emergency, nor any emergency condition to be dealt with. Whatever emergency there was in 1919, or prior to April, 1921, which justified a temporary emergency increase by this Board, is now passed. Commercial conditions everywhere, and the statements of the company's business, indicate that; and the best evidence that the present application should not be so dealt with is shown in the admissions by counsel for the company on the argument before the Privy Council, as regards the last application, above referred to, in the following language:

"Mr. Osler: And, my learned friend from the city of Toronto objected to dealing with the matter in a comprehensive way, and pressed upon the Board, against our protest, that the matter should be dealt with on the evidence that this was an emergency in consequence of the high level of prices and the extraordinary financial conditions, and that the matter should be dealt with on the basis of a pure emergency. Now, we object to that; we said that two years ago one might have thought there was a temporary emergency."

C. L. 124]

And, in further explaining reason to Privy Council for the last application, Mr. Osler then stated:

"The company considered that when it was bringing the matter before the Board, it should recast its rate schedules. The history of the company's rate schedules was that of a sporadic growth. When it was first incorporated there was no controlling body vested with authority to control the rates which were charged. The result, was, rates were made in some places in competition, in some cases under agreement with the public bodies, and in other cases they simply established what they thought to be a fair rate, having regard to the then existing development. The result of that was that some years ago the Act was amended. One of the company's Acts of Incorporation provided that the company should not increase its rates without the consent of the Governor in Council. No application was made. The country continued to grow at varying rates, and when we came to make the application that was made this year we found a rate schedule that was not a scientific rate schedule."

And in this case Mr. Osler says (Vol. 380, p. 18524):

"Commissioner Boyce: Then notwithstanding the two increases which you have received of 10 per cent. and 12 per cent., 22 per cent., you will say you are face to face with an emergency condition such as you pointed out on those two applications?

Mr. Osler: We said on the former applications that we thought the rates should be put upon a permanent basis, we could not see that this was a merely temporary emergency. The Board dealt with it otherwise."

I am, therefore, of opinion, that this application must be dealt with according to the form in which it is presented for consideration, namely as an application for approval of a new tariff of rates and not as a temporary emergency application. To treat it as such would be to perpetuate a pure fiction. What is now before us is a new tariff of rates upon a higher scale, and which would provide large additional revenues. In opening his argument before the Board, upon this application, Mr. Osler, counsel for the company, so states it:

"Mr. Osler: May it please the Board. Our application is for the approval of the rates set out in our printed application, with a view to securing for the company sufficient additional revenue to make good the amount which the Board intended that we should get by its judgment of the first of April, 1921.*"

* See Commission Leaflet No. 114, p. 1651.

As pointed out in the judgment of the Board, of May 8, 1919,* the company's tariffs in force at the present time are not in touch with existing conditions and exhibit inequalities and some discriminations, and show on their face that certain districts and cities are paying more than others, under substantially similar conditions. In his judgment, in 1919,* (25 C. R. C. 6), the Assistant Chief Commissioner quotes from the interim judgment of the then Chief Commissioner as follows:

"In my opinion, should it be found necessary to increase the company's rates, they should be increased subject to the Board's further order and to the further provision, in the meantime, that such data be collected and valuations made as will enable a proper telephone rate to be determined when conditions are ascertained to be constant."

And, in the judgment of last April,† the Assistant Chief Commissioner says, respecting the grouping of rates then proposed (and now continued):

"The general regrouping which has been put forward as tied up to the general percentages of rate increases which the company desires to put in force. Whether or not the groups in general are on a proper basis, I am, in the absence of evidence unable to say. Some of the increases, large as they are, may possibly be justified by facts. An increase of 72 per cent. on the business rate in Windsor, of 74 per cent. at St. Thomas, of 45 per cent. in Group 4, covering such places as Brantford, Sarnia, Galt, and Sault Ste. Marie; of 52 per cent. in Group 5, in places such as Barrie, Lindsay, North Bay, and Orillia; of from 30 to 63 per cent. in Group 6, and of 50 per cent. in Group 7, may be justified. But the increases are very heavy, and, still more important, there is no evidence submitted to show just why these increases in individual cases are justified."

The telephone company having had sufficient time, according to their own admission, since emergency conditions ceased, now brings such a tariff for the approval of the Board. The onus of showing that such a tariff is a suitable one and meets the various conditions of traffic, with which it is presumed to deal in its operation, lies upon the

* See Commission Leaflet No. 91, p. 609.

† See Commission Leaflet No. 114, p. 1651.

company, and I would find, as a fact upon the evidence that, the company has not discharged that onus with regard to the present proposed tariff and has not produced any satisfactory evidence to this Board that the proposed tariffs are such as would be suitable, just, and reasonable, for the telephone service mentioned, in the various areas referred to. The same inequalities and discriminations appearing in former tariffs in the same places (with the exception of Montreal and Toronto), and commented upon in the judgment of this Board, and admitted by the company, appear in these tariffs. There seems to have been no effort in the making of them to adjust the rates in any scientific way to the value of the telephone service to the subscriber, having regard to the population of the telephone area, the number of stations, or the cost of the service therein. The proposed rate increases, over the present rate in these places, serve to accentuate the inequitable and obsolescent features of the existing rate. The grouping of towns, under various rates, is not brought about upon any satisfactory basis as to meeting modern conditions relatively to the number of stations and population and value of service, and the rates quoted are out of line. There is no dispute about this.

As I stated above, no attempt was made at the hearing to explain or amplify, or deal with in detail, the various rates involved. This was commented upon in the argument:

"Commissioner Boyce: Who prepared this statement?"

Mr. Sise: Mr. Paul McFarlane.

Commissioner Boyce: And you are asking to put it in force? The evidence is all in, and there has not been a witness called to support any item in the statement."

The Board is asked to adopt them as a whole, and thereby to perpetuate the inequalities referred to. There are discriminations in the tariff proposed, *e. g.*, in the city of London there is a business individual rate specially for physicians, dentists, veterinary surgeons, and nurses, 20 per cent. less than the ordinary business individual telephone. This rate seems to be confined to the classes mentioned,

only in the city of London, and is not extended to any other place. I quote this only as an example of discrimination, which doubtless, upon a close examination can be found to extend in other respects, to other places. It would be impossible, in my opinion, for the Board to accede to the request of the company to approve this tariff. In my opinion it is neither just, nor reasonable, and is not suitable to present conditions in the various areas and ought not to be allowed by this Board. In defining what is just and reasonable, I would refer to the principles applicable to advances in rates, and the substance of which involves two propositions, viz:

(1) Whether it is *reasonable*, having regard to cost and value of service; and as compared with rates on other commodities.

(2) Whether it is reasonable in the absolute, regarded as a tax upon the people who ultimately pay transportation charges.

Re Freight Rates, 9 I. C. C. 382.

Crews et al. v. Richmond and Danville Railroad Company, 1 I. C. C. 703.

I think the proposed tariff is open to the objectionable features of both the principles stated above, viz.: I cannot, on what is before the Board in evidence, find that it is reasonable from the company's requirements, and I find upon the evidence that it would be neither just nor reasonable, from the point of view of the people, who are called upon to pay the proposed rates.

It remains to consider, as to whether the proposed tariff of the company, being unsuitable and being rejected, this Board should be called upon, upon this application, to provide (a) a new tariff suitable to existing conditions, and eliminating all the objections which I have generally pointed out to the old tariff: or (b) provide a percentage increase upon the present exchange rates, in order to enable the company to obtain additional revenue to meet its requirements. I will deal with these in the order mentioned in relation to the statements of the company in and upon which it bases its application to the Board.

(a) It is not one of the functions of this Board to initiate

a tariff for this or any telephone, or railway company. Its duty, generally, is to examine and pass upon, approve, or reject, tariffs proposed, having regard to whether in the opinion of the Board, such are just and reasonable, having due regard to the principles mentioned. True, the Board has the power to reject, or amend a tariff, or direct another, but no duty is cast upon the Board to mould one suitable to various conditions and areas of traffic, dependent upon a multitude of conditions, as to which the Board has no evidence before it. The onus is upon the company to furnish this evidence, and it is not, so far, before us.

In his judgment, in the telephone company's application in 1919 * (25 C. R. C. 26), the Assistant Chief Commissioner says:

"But where a regulative tribunal's jurisdiction comes, as it always has done, after the development of a rate situation, the function of that tribunal is to regulate, not to initiate. If the law provided that a regulative tribunal should be an organization initiating rates, the situation would be different. So long as the existing law of Canada stands as it is, it seems to me that more important than the scientific basis is the question of how the rate works."

I therefore find that there is not before the Board evidence, material, or data, sufficient to enable it, if it were so disposed, and if it were a proper case so to do, to reconstruct, amend, or alter, the present tariff offered for approval, or, to initiate a tariff providing rates in substitution for that now proposed, and which, I think, should be rejected, and that, in the circumstances, the Board should refuse to direct a substantive tariff.

(b) I am of opinion that no temporary percentage increase is necessary, or desirable. Such should only be granted to meet an emergency, and, in the view I take, there is no emergency. Mr. Osler, the company's counsel, expressed the same view before the Privy Council and on this application. It is highly desirable that all the company's tariffs of tolls should now be recast. To grant a

* See Commission Leaflet No. 91, p. 609.

percentage increase upon the present ones would accentuate and aggravate present existing inexactitudes, discriminations, and inequalities. The company's position is such that during the time necessary to prepare the necessary data and information upon which to frame tariffs, suitable to present traffic, it is not imperiling its credit. It claimed at the opening of this application that it has a deficit of over \$2,000,000. I cannot so find. A liberal computation of the company's requirements, drawn from the maze of figures presented to us, and with projections on a basis most favourable to the company, would give the following estimated result on the months, May to December, submitted:

	<i>Eight Months' Period</i>	<i>Projected for Twelve Months on Same Basis</i>
Exchange revenues	\$9,221,010	\$13,831,515
Toll revenue	3,671,857	5,507,785
Total telephone revenue.....	12,892,867	19,339,300
Total telephone expenses.....	11,002,929	16,504,394
Total net earnings.....	1,992,533	2,989,299
Interest	794,241	1,191,361
Dividends	1,279,110	1,918,665

Summary

Total net earnings.....		\$2,989,299
Deduct interest	\$1,191,361	
Deduct dividends	1,918,665	
		<hr/> 3,110,026
DEFICIT		\$120,727
Surplus 2 per cent.—\$1,918,665.....		479,666
		<hr/>
TOTAL DEFICIT		\$600,393

Any tariff to be subsequently submitted for approval should be constructed upon the basis of these requirements, subject to further reductions therein, as the economies pro-

duce better results, so that the people may get the full benefit thereof.

With the continuation of the economies instituted since this application was brought before the Board the company stands in no danger on account of this deficit. It alleges that it must finance some 19,000 extensions. I think that it can do so now, in its present position, as easily, if not easier, than it has financed similar or greater extensions during the past forty years of its history of expansion, under circumstances to which I shall presently refer.

No nice or exact computation of the company's requirements is necessary, in my opinion, to the disposition of the present application. For upwards of two years it has been aware of the urgent necessity for a suitable tariff. It has had knowledge of the obsolescence and inequalities of the present one. It has not seen fit to put before the Board, for approval, such a tariff as will suit conditions of its traffic to-day, and if, during the time in which it is engaged in the preparation of such, it is obliged to finance, as it has done for over thirty years, without coming to this Board for means to meet its necessities, there will be less hardship and injustice thereby entailed than by seeking to impose by another percentage increase, or by a manifestly unsuitable and unequal tariff, an additional burden on its subscribers. It has large reserves, its plant should be 80 to 90 per cent. efficient, as its replacement reserves are in excess in percentage of what according to high authority is considered safe.

Reference to the company's history and progress will show that there is neither emergency, nor crisis, in the company's position.

Up to the year 1902 this company could not increase its tolls. Whatever developments it made of its business — whatever its financial requirements were to meet the expansion and extension of business — to provide increased plant, and generally to provide for a growing business, extending over a wide field, the company had to provide for, irrespective of and without recourse to rate increases.

Although since 1902 it had the power, subject to control, to increase its rates, and since 1906 has been subject to the Railway Act, no application for general increase in rates was made by the company until August, 1918, and that application was based upon emergency conditions caused by the war. Notwithstanding this fact, and all through the period of development of the telephone utility by the company, when its practical use was not generally known or accepted, and when the credit of the company was not so great, and its activities in many ways were circumscribed by active competition, the company shows that very great growth, expansion and development took place without taxing its subscribers by increase of tolls. The statement (Exhibit 15) filed by the company is interesting as illustrative of what was accomplished without increase of rates:

	End of Year .		Total Assets (Excluding Cash and Receivables)	Net Earnings	Per cent. Net Earning to Total Assets
	Subscribers' Stations	Capital Stock Issued			
1880	2,100	\$377,600	\$373,333	*\$11,053	2.9
1885	10,200	1,200,000	1,527,503	166,332	10.8
1890	20,437	1,494,000	2,822,581	179,855	6.3
1895	30,908	3,168,000	4,765,644	326,660	6.8
1900	40,094	5,000,000	7,498,762	436,680	5.8
1905	82,351	8,604,840	14,062,605	1,004,898	7.1
1910	138,370	12,500,000	22,541,332	1,729,576	7.6
1915	242,784	18,000,000	39,789,807	2,221,985	5.6
1916	261,899	18,000,000	42,312,159	2,469,243	5.8
1917	284,261	18,000,000	46,022,325	2,534,071	5.5
1918	303,205	18,000,000	49,682,311	2,104,688	4.2
1919	337,476	22,336,300	55,252,935	2,153,324	3.9
1920	376,361	22,657,000	62,050,089	881,523	1.4

* Net earnings are before providing for interest charges which amounted to \$913,483 in 1920.

In view of the insistent contention, pressed upon the Board in each one of the three applications, dealt with by the Board in the last three years, that the extensions of the company's business necessarily involved increased tolls, the above statement furnishes, I think, conclusive evidence of the fact that (a) during the years 1880 to 1900, when it had no power to increase rates, it financed successfully over 38,000 extensions; (b) from 1900 to 1905 (the period in

which the Act of 1902 came into force) it financed over 42,000 extensions, and (c) from 1905 to 1917 over 206,910 extensions, or an average of 16,825 extensions per annum, without taxing the public therefor by general rate increase. And, during that period, as the statement shows, it stabilized its credit in the financial world by prudent and economic management, and increased its assets from \$373,222 to \$46,022,325. The application in 1918 for increase was made, dealt with and granted as a temporary and emergency measure pure and simple, due to sharp increases in cost of labour, materials and money, and the added difficulty of financing in a much disturbed money market. The same conditions justified as a temporary emergency measure the relief granted upon the application of 1919. The conditions imposed by this Board in granting both those emergency increases (1919 and 1921) clearly show that it never was in contemplation that what was permitted as a temporary and emergency measure, in each case, should become crystallized into fixed rates, as it now seems the company would regard those applications by now filing a tariff for this Board's approval, based upon the rates as twice increased for the temporary emergency reasons mentioned, and with proposed substantial increases thereto.

It is of importance to note in connection with the financial history and large expansion of the company's business, as above referred to, the argument of counsel for the company to the effect that as extensions of the company's business take place and new money is required to meet and provide for those extensions, there must, of necessity, be an increase in the tolls to finance and maintain that expansion. I quote from the argument (Vol. 380, p. 18512 *et seq*) :

"That is a physical condition which must be met. I do not know how it can be suggested, I have never heard it suggested, that physical condition can be overcome without an increasing cost per subscriber served. That is a very rough statement, the more you go into it in detail the more it is confirmed, and the larger the figures apparently become, but I say that is a rough statement to demonstrate the condition and the reason for the fact that as the number of subscribers served increases

so the cost goes up, not once or twice but many times the cost of serving the original subscribers.

Commissioner Boyce: It must necessarily follow then that as the system is extended an increase in the charge to the original subscribers must necessarily follow?

Mr. Osler: I suppose so.

Commissioner Boyce: Well, that is the effect of your argument, the capital investment for extension must always be laid upon the present subscribers, they must pay the carrying charges of that investment.

Mr. Osler: Absolutely; the legislation to which I have referred is a statutory requirement, and that is why I referred specifically to the legislation, it does not merely require us to give service to those of the public whom we wish to serve, or the public in any particular area, but it requires us to serve any resident of this country who, being in an area in general served by the telephone company, desires that service.

Commissioner Boyce: And another logical result of that argument must necessarily be that telephone rates can never come down, they must always go up?

Mr. Osler: I think that probably is a result; I do not wish to raise this question, but unless you reach a point where the service is paid for as and when taken; that is a measured service, the message rate."

The fact — combating above argument — apparent from the history of the company's development as before set out, counsel endeavours to explain in the following language (Vol. 380, p. 18513):

"Commissioner Boyce: Well, irrespective of the figures, in the long space of time from 1880 until the first application for an increase of rates that was the condition of things, you were extending and extending at an enormous rate without an increase of charges?

Mr. Osler: There were several things that contributed to that, one being the progress of the art, that had some effect. Another thing was our business had been soundly managed, and our credit was of the very best; we were able to finance very cheaply. Another thing, the business did not expand anything like as rapidly in the earlier years as it has recently."

The explanation just quoted is answered by a glance at the table of figures quoted above and furnished by the company. From 1910 to 1915, subscribers' stations increased from 138,370 to 242,784, an average of 20,882 per year. From 1915 to 1917, they increased from 242,784 to 284,261, an average of 13,825 per year. In 1917-18, there is

shown an increase of 18,944 stations, and the first emergency application was based upon the operations of those years. The argument that on account of sound management and good credit the company was able to finance cheaply in the earlier days of the expansion of the business is hardly a convincing one. I did not hear it suggested that in the later years the management of the company's business was not equally sound, nor that its credit was impaired. One would more naturally conclude, that sound management and good credit during earlier years would, with the enormous expansion shown, be productive of better stability in the company's financial position, and, save for the emergent conditions to meet which relief has been twice afforded, ought to be enhanced rather than depreciated by such expansion, if the good qualities referred to have continued, as it is not denied.

If Mr. Osler's arguments that rates must necessarily increase as extensions of the company's business become necessary were now to be adopted, this Board's functions as to approving proposed increases in telephone tolls would be purely mechanical, and the fact that the company's counsel contends for such a principle, when asking for rate increases, gives, in my opinion, at least some added force to the conclusion that no further increases in tolls should be approved, upon the basis of extensions needed, except such as would be involved in a new schedule suitable to traffic as it is to-day, and in other respects just and reasonable, having regard to the value of telephone service and the recognized factors of rate-making, and free from the inequalities, discriminations and inconsistencies which characterize the proposed schedule, and all of which must be removed as soon as possible.

I would, therefore, dispose of the reasons alleged in support of the application, as stated in the application, by the following findings:

1. That the company's estimate of \$1,357,500 as its additional requirements, is erroneous and excessive. That the maximum amount required to implement the requisite rev-

enue, to meet all the company's requirements, was \$600,393, and that, in my opinion, had economies effecting in five months, decreases of \$263,691.98 in operating expenses, been earlier introduced, as was possible, the requirements would, substantially, have been met.

2. (a) That it does not appear that the company made extensive, thorough and adequate effort in the direction of obtaining new money required to finance its requirements. That insofar as the net earnings, at that time, fell short of requirements, they could have been substantially implemented by more speedily inaugurating the economies in operating costs subsequently enforced, as suggested by the financial brokers to whom the company made application for such new money. That with the increased operating revenue, and decreased operating expenses, shown in the company's statements, and with the substantial and adequate reserves it had accumulated, and with the economies subsequently demonstrated as possible, the company's credit was, and is ample, for the purposes of financing temporary financial requirements, to cover extensions and new business, and

(b) There was, for the reasons shown, and upon the facts, no justification for the abandonment of the effort to obtain the new money required, nor for the application to this Board, at this time, upon the basis of a tariff quite out of line with the company's traffic, and unsuitable thereto, for permission to tax its present subscribers for the money required to finance the cost of such extensions of its business.

3. In addition to above reasons, insofar as they are applicable to the third reason stated in the application, and as regards the financing of the requisite money to provide for the alleged pending 16,000 applications for telephones, no evidence has been given, and no reasons given to justify the conclusion that this Board must increase rates of present subscribers to enable the company to provide money necessary for expansions of business, and in the absence of the acceptance of such a principle (which has not been

asserted during thirty-seven years of enormous expansion) no ground for relief, on this account is shown.

4. Covered by conclusions 1, 2, and 3, and,

There being no evidence to justify the tariff of rates, now offered for approval, but on the contrary, such tariff being, admittedly out of line, discriminatory and objectionable for the several reasons shown, approval of the tariff submitted must be refused.

The functions of the Board do not extend to initiating tariffs, and, if they did, there is no evidence, data, or material, before the Board, upon which a suitable tariff could be constructed.

No emergency condition exists, and no grounds are shown which would justify any temporary or emergency increase in rates.

The application must be refused.

Order will go accordingly.

Ottawa, February 7, 1922.*

SUPPLEMENTAL OPINIONS.

February 9, 1922.

CARVELL, Chief Commissioner:

By a judgment of this Board, dated the first day of April, 1921,† written by the Assistant Chief Commissioner and concurred in by Commissioners Boyce and Nantel, a certain increase was given in the rates and tolls to be charged by The Bell Telephone Company, which, in their judgment, after careful consideration, should have placed the company in a position to pay operation and maintenance charges, 4 per cent. reserve for depreciation, an 8 per cent. dividend, and 2 per cent. surplus. An order was issued thereon, effective the first day of May last. On the twenty-third day of July, the company came back to the Board, stating that the result of the operation under the order would not furnish sufficient funds to provide for the

* Deputy Chief Commissioner Nantel, and Commissioner Lawrence concurred.

† See Commission Leaflet No. 114, p. 1651.

requirements therein set forth, and asked that a further increase be granted, not a percentage increase, but that the Board authorize a certain scale of rates set forth in the application, which, they contended, would produce the necessary funds, remove certain discriminations, and place the general tariff on a more equitable basis than existed at the present time.

The Board has on many occasions laid down the principle that, as a public utility corporation can only charge the tolls or rates which the Board allows them to do, we, therefore, should give them sufficient rates to produce certain results, always assuming that the utility is efficiently and economically operated, and the principle, so far as The Bell Telephone Company is concerned, was enunciated by the judgment hereinbefore referred to.

If the company has been and is now being efficiently and economically operated, and there is no evidence to the contrary, then the questions to be decided are (1) Will the company receive sufficient money under the rates now granted them to produce the financial results hereinbefore referred to? and (2) If not, then how much is required to make up the deficiency and how should it be provided?

Various computations were made by the company and counsel representing the city of Toronto as to the result of a year's operation under the existing tariff, and, in view of the decision of the majority of the Board, it is unnecessary that I should go into any lengthy discussion of the precise method by which the actual year's results may be ascertained; but we now have the monthly statements from May to December, both inclusive, giving us the result of eight months' operation under the present tariff, and I find from the computation worked out by the Assistant Chief Commissioner that, by projecting the result for eight months to a twelve-month period, the company will be \$600,000 short of the requirements as set forth in the judgment. If we take the last seven months, the deficit will be about \$513,000; the last six months, a deficit of \$779,000, the

last three months, a deficit of \$1,006,000; and the last two months, a deficit of \$500,000.

These results have all been obtained by excluding the federal income tax as an operating expense. Considerable argument has taken place, but, as the Board had formerly decided that this item should not be considered an expense, I make no further reference thereto but, in my calculations, have excluded it.

It, therefore, seems to me that I am safe in concluding that the company at the end of twelve months under the present tariff will be at least \$600,000 short of the amount required under the principles laid down in the former judgment.

The company claims that they have applications for more than 19,000 telephones in the provinces of Quebec and Ontario which they are unable to fill on account of lack of the necessary funds, and stated that, in the month of May last, they attempted to raise \$5,700,000 by the disposal of common stock, all of which was offered to their shareholders at par. About 67 per cent. was taken up, one-half of this amount by the American Telephone and Telegraph Company, and they have been unable since that date to dispose of any large quantity, thus leaving something over \$2,000,000 still undisposed of, and they contend that, unless the revenues are such that the investor has a reasonable guarantee of the payment of dividends, they will be unable to raise any large amount of money by this method.

It was stated at the hearing that a certain amount could have been raised on 7 per cent. bonds payable in 1925, and considerable criticism has been launched against the company for failing to adopt that method of raising the necessary funds. In my opinion, the company is the proper judge as to the method of financing to be adopted. It is always contended that there should be some relationship between the amount of bonds and stock outstanding in any such utility. As all the existing bond issue of The Bell Telephone Company matures in 1925, it is, therefore, quite evident that bonds could not be issued for a longer period,

and the company contends it would be an improper method of financing to attempt to float short term bonds only to increase the amount which they must provide three years hence, whereas, if they could sell stock, there is no repayment period and it is simply a question of payment of dividends.

While not deciding which is the proper method, I think things of this kind can be well left to the people who put their own money into the venture and who know more about it than those who have not had that experience. It is very clearly evident that the investing public will not subscribe to the common stock of any company unless they see a reasonable prospect of dividends being earned continuously, and, therefore, when the net income of a utility such as The Bell Telephone Company falls below the requirements set forth by this Board less than a year ago, I am not surprised that their stock issue has been a partial failure.

While this Board has no control over the wages paid by any company to its employees, yet I think we not only are justified but are practically compelled to take these matters into consideration in deciding whether or not in our judgment the company is economically managed, and, therefore, when The Bell Telephone Company applied to the Board in July last, my first act was to demand from them a complete statement of the number of their employees, the services rendered, and the wages paid to each. This I have examined very closely — in fact, it was only on the general assumption that these wages were reasonable that I consented to hearing the application. At the hearing, on a number of occasions I specifically asked the counsel representing the province of Ontario, the city of Toronto, the city of Montreal, the Board of Trade of the city of Toronto, the city of Hamilton, and the city of Ottawa, and all other counsel engaged in the case to state whether or not in their judgment the wages were higher than they should have been and wherein, if at all, they could be reduced. With the exception of Mr. Bullen, counsel for the Board of Trade of

Toronto, they were all practically silent, excepting the representative of the Attorney General of Ontario, who thought there could be some reduction made in the salaries of the higher officials. The counsel for the city of Ottawa thought the amounts paid the higher officials were entirely reasonable and there should be no reduction therein, and had very little fault to find with the general scale of wages. The remainder refused to express any opinion whatever, and this after being repeatedly invited to do so, as I stated to them very plainly the object which I had in view.

Not receiving any assistance from the counsel other than as above indicated, I am, therefore, compelled to exercise my own judgment, and, in doing so, with a few exceptions, I am unable to see where under present conditions any important reductions can be made. If we take the executive department for the year 1921, we find the total salaries paid amounted to \$142,992, and, if for the same period we take the executive, accounting, financial, and legal departments altogether, we find the total amount is \$330,000. Therefore, if very generous reductions were made in these salaries, it would play a very small part in making up the deficit hereinbefore referred to.

As to the other employees, by far the greater amount, in fact around \$6,000,000 annually, consists of the wages of the telephone operators, mostly female, and the total cost of operation, outside of maintenance, amounts to \$9,545,000. The total cost of maintenance, including material as well as labour, amounts to \$3,665,000, and while not wishing to lay down any positive instructions, yet, in my opinion, there could be some saving in a number of the employees in this particular branch of the work; but, if there is to be any serious reduction in the cost of operating the plant, it must come out of the employees who are actually operating, and I do not think the wages which they are receiving, especially the thousands of girls and women employed as operators, are such that they should be called upon to make further sacrifices under present living conditions.

It was stated by the company that, beginning in the month

of August, they commenced to retrench (1) by refusing further increases in salary to their operators and staff generally, who usually reached the maximum in four years, on the ground that economies must be practised and, as practically all their old employees were remaining with the company, they found a much higher percentage of these employees than usual enjoying the third and fourth year salaries; and, (2) by discharging every person possible and still maintaining the efficiency of the plant, the result being that, within three months, 500 employees were laid off, and it was stated by Mr. Scott that he believed they had reached the limit, even intimating that they might be compelled to somewhat increase the staff in the near future.

It was argued and has been stated that the deficit above referred to will be made up by the reductions already referred to. My answer to that, however, is that, during the months of October, November, and December, all of those economies have been in operation and yet I find they fell behind for these three months an amount which extended for one year would amount to \$1,000,000, and, for the months of November and December, under the same conditions and extensions, the deficit amounts to \$500,000. It seems to me this pretty effectually answers that contention.

If, therefore, the net revenue for the year should be at least \$600,000 more than it will be under present conditions and as required by the former judgment of the Board, this amount can only be produced by reducing the wages of the operators and other employees as hereinbefore set forth or by increasing the rates sufficiently to produce that amount of money, which would be a little less than 5 per cent. of the exchange revenue. I prefer the latter course, and think an order should issue increasing the rates sufficiently to produce an additional \$600,000 per year.

In view of the decision of the majority of the Board, it is unnecessary to enter into any statement as to how I would raise this particular amount of money, excepting to state that there are a number of places in the territory

covered by The Bell Telephone Company in which the rates are abnormally low, based upon any well recognized standard of telephone rate-making, and I think these should be brought up somewhere near to the position which they should occupy. In other words, I would readjust the rates rather than give a percentage increase, and, if the rates as set forth in the application did not meet my views as to what would be proper under all the circumstances, it would be a very easy matter to change them, because this Board has absolute power to fix and authorize any rates which to it may seem reasonable. I would, therefore, think an order should issue granting an increase to produce \$600,000 per year.

McLEAN, *Assistant Chief Commissioner*:

The matter of telephone tolls charged by The Bell Telephone Company of Canada has already involved two hearings and two decisions. In each of the former hearings, the application has been dealt with as an emergency matter. In order to appreciate the setting of the present application and its relation to the former applications, a summary analysis of the conclusions arrived at in the former decisions seems essential.

In the present application, the company sets out that the rates authorized do not produce sufficient revenue to meet its dividend requirements and, therefore, do not carry out the intent of the judgment and order rendered by the Board on April 1, 1921.* It is, in addition, set out that because of this condition it is impossible to obtain the additional money necessary to finance essential additions to facilities; and, as pointed out in the reasons for judgment of Commissioner Boyce, reference is made to the large number of applications for service which the company alleges it is unable to meet because of lack of equipment and lack of money necessary to obtain such equipment.

It does not appear to be necessary to enter into the alleged consequences of the revenues obtained by the com-

* See Commission Leaflet No. 114, p. 1651.

pany being deficient as measured by the standards which the Board has set out in its judgments. It is apparent that if the company is unable, under existing rates, with prudent management, to meet the charges which the Board has found reasonable, it follows that there is no surplus of revenue which would be, so to speak, an insurance fund in connection with the issuance of new bonds and stocks. Without labouring the point, it is obvious that additional issues of stocks and bonds will not be acceptable to the investor, simply because there are assets in the plant. He is concerned with live funds furnishing the revenue out of which dividends or interest will be paid. The attitude of mind of the investor has to be taken as it is; and if he does not find such surplus of revenue over and above meeting necessary and proper charges of the company, under prudent management, it follows that he will be unwilling to invest. But, as already indicated, it does not appear necessary to go into this phase of the matter in any great detail because the whole matter, to my mind, goes back to what the Board has decided in the former cases, and the pertinency of the findings there made in connection with the present case. If the findings there made have by efflux of time lost their virtue, then they have no bearing on the present case and it is to be treated as a substantive application. If, however, the principles laid down in the former cases, in whole or in part, apply, weight must be given to them. The increases made were dependent upon certain conditions; and the question has to be faced, do the conditional arrangements still exist?

In the judgment rendered on April 1, 1921,* the dividend rate was not treated as an emergency rate, nor was it so regarded by the expert witnesses appearing in support of those who opposed the application of The Bell Telephone Company. As stated in the judgment,

"Exception to the rate of 8 per cent. as being reasonable was not taken by the experts called on behalf of those opposing the application; on the contrary, the evidence was that this was a reasonable rate."

* See Commission Leaflet No. 114, p. 1651.

In the cross-examination by Mr. Phippen of Mr. McKenzie, who appeared as the financial expert supporting the criticisms of the proposed increase as voiced by the city of Toronto, discussion took place as to the rate of dividend. Volume 352, pp. 1152, 1153, in response to a question by Mr. Phippen, Mr. McKenzie said that the company had been very well managed and its properties and its credit well conserved. He was of the opinion that it had been reasonable in the distribution of its profits. He considered the 8 per cent. dividend a reasonable one, and was of opinion that the company in paying 8 per cent. on its common stock, and in putting all the balance of its profits back into the property, was conducting its business on sound business principles. In answer to a question as to whether the Board in dealing with rates should compel The Bell Telephone Company to lessen its established dividend of 8 per cent. on common stock, Mr. McKenzie answered "No," and stated he understood this was not the policy of the Board. Mr. McKenzie was in misapprehension here since no declaration of policy on the rate of dividend of The Bell Telephone Company had been made by the Board. On being asked his personal view, he said he would not suggest and did not think there was any necessity for a reduction in the dividend. He said, further, that he did consider the dividend a reasonable one.

At p. 1155, in cross-examination by Mr. Phippen, the witness stated that he was assuming in connection with the remarks he made that the 8 per cent. dividend was continuing.

Mr. Hagenah, who appeared for the city of Montreal, was cross-examined by Mr. Osler. The discussion which took place will be found in Evidence, volume 351. At p. 873, in a question as to the governing rate of return in the case of the United States Commissions, it was stated by Mr. Hagenah that $7\frac{1}{2}$ to $8\frac{1}{2}$ per cent. on the fair value of the property was common. At pp. 962 and 963, the same witness, in cross-examination, was asked various questions by Mr. Osler. In answer to the following question:

"And the rate of 8 per cent., or I think you put it 7 to 8 per cent., which was considered a reasonable and proper rate some years ago, bore a certain relation to the investing returns on securities such as mortgage bonds of good industrial corporations, and mortgage bonds of railway corporations"—

the witness answered, "Yes."

On the evidence, the dividend rate of 8 per cent. was admitted to be a reasonable one. Such admission having been made by the qualified experts of parties opposing the application was accepted in the Board's judgment as being a matter on which it was not necessary to make a specific ruling. It being a matter of agreement, the Board's computations as to what was necessary in connection with the dividend was based upon the 8 per cent. rate as one factor.

The dividend rate of 8 per cent. was not developed as being an emergency rate. It was admitted to be a reasonable and proper rate, taking all things into consideration. It is, therefore, a continuing factor.

In the Board's judgment of April 1, 1921,* explanation has been given why income tax was not treated as a proper operating cost, but as something which should be charged to surplus of operation by the owners of the property and should not be borne by the subscribers to the service. This follows what was set down in the earlier decisions in the telephone rate matter as set out in 25 Canadian Railway Cases 12.

There remain to be considered two factors which have been given emergency treatment and in connection with which the burden was subdivided between the company and the telephone user. These two factors are surplus and depreciation.

In the judgment of April 1, 1921,* the company had included in its figures a factor for surplus amounting to 4 per cent. on the common stock, and reference was made to the evidence in the *Western Rates Case* by Mr. Mueller, who appeared as expert for the Dominion Government, and

* See Commission Leaflet No. 114, p. 1651.

who testified that a surplus equal to 50 per cent. of the dividend rate was proper.

The Board was of opinion that some surplus was necessary. The necessity for surplus was succinctly stated in Mr. Hagenah's evidence when he said it would be poor business and a bad course for the company to adopt an advertisement to the public that it was paying in dividends every cent it was earning over and above fixed charges. It is true that the financial expert for the city of Toronto objected to the inclusion of any item for surplus. The Board decided, however, that an item for surplus was necessary; and the Board, therefore, has no choice but to stand by its conclusion which was arrived at after careful consideration.

Mr. Hagenah recognized, under normal conditions, that 4 per cent. surplus on stock was desirable, but as a temporary condition, to be dealt with by way of temporary relief, the figure so arrived at was cut in two, thus leaving a surplus of 2 per cent.

In the decision of April, 1919,* the Board decided not to adopt the depreciation ratio of the company but as an emergency measure to put in a depreciation ratio of 5.7 per cent., which was computed would mean a reduction of some \$330,000 in the amount chargeable to depreciation.

The question was further gone into in the decision of 1921;† and, after careful consideration, a further temporary revision of the depreciation ratio was directed. Mr. Hagenah was of the opinion that the 5.7 per cent. which had been put in force as an emergency ratio in 1919 was something which was substantially a minimum.

The Board, recognizing that on account of the nature of the functions with which the depreciation reserve is concerned it is unsafe to take the payments out in a single year, as a measure of what is normally necessary and proper in a period of years, decided that in aid of the emergency condition which was found to exist there could be borrow-

* See Commission Leaflet No. 91, p. 609.

† See Commission Leaflet No. 114, p. 1651.

ing from the depreciation fund for a limited time; that is to say, the annual contribution to said fund may be lessened; and the Board decided for a limited time, that the rate of 4 per cent. on the average depreciable plant, which was computed as being approximately 3.64 per cent. on the total plant, should be applied.

As emphasizing the emergency nature of the depreciation ratio, reference may be made to the decision rendered by the Board in July, 1921, in connection with the application of the British Columbia Telephone Company for an order granting an increase in exchange rentals and charges for service. In the judgment, a depreciation ratio of 6.04 per cent. was allowed. In the evidence in this case, Samuel H. Meldrum, who was called as an expert, testified as to the rate of 6.2 per cent. being a reasonable and proper rate.

The American Telephone and Telegraph Company during the year 1920, had a depreciation ratio of 5.3 per cent. This was referred to in the *British Columbia Telephone Case*. The figures on which this ratio was built up are not before me, but my understanding is that one important factor is the large amount of underground work which has been done, thereby lengthening the life and lessening the annual contribution.

In the application of the city of Toronto to the Privy Council against the increase of rates in the decision of April 1, 1921,* which appeal was heard before the Privy Council on June 14, 1921, and referred back to the Board, exception was taken by counsel for the city of Toronto, to the provision made in said judgment for the depreciation ratio, and the contention was made in the following language:

"All I say is that there should be only allowed to be taken by the company for depreciation in any year, for the next year or two until the case can come under review, the \$1,000,000 actually required for replacement."

In the decisions, therefore, there are two sets of factors: (1) The dividend rate and the question who is to bear the burden of the income tax. These have been treated as not

* See Commission Leaflet No. 114, p. 1651.

being concerned with an emergency situation and the findings made are not limited in time. (2) The surplus and depreciation. These both have been treated as being related to emergency conditions and limited in time.

It is contended that there is not an emergency situation before the Board. With this position, I am unable to agree. The measure of relief which was granted on April 1, 1921,* was, in my belief, justified because of emergency conditions. Reference has been made in the reasons for judgment of the majority to the discrepancies and discrimination which exist in the existing schedules, and which, it is pointed out, have been aggravated by percentage increases.

I am, and have been from the outset, thoroughly cognizant of what the discriminations and disparities in the existing rate system are; but, for reasons set out at length in the judgments of mine, already referred to, I have been of the opinion that the Board had to deal with the matter from the standpoint of emergency, and I cannot see that the emergency condition which led to the decision of the Board in April, 1921,* has passed.

In arriving at the rates as therein computed, the Board endeavoured to forecast as far as possible the downward movement in costs, both in labor and material, which were taking place. The question of downward movement of costs requires some consideration later.

But as bearing on the condition of emergency, it is to be noted that the Board in retaining the conduct of the case still calls for returns based on the surplus being limited and also on the depreciation ratio being limited. The Board has expressed the opinion that the limitations of the surplus are justifiable under emergency conditions. The following language was used in the decision of April 1, 1921:

"Differences do appear in the opinions of the experts; at the same time, I think the conclusion is unescapable that some surplus is necessary. Under the existing conditions, however, whatever might be a justifiable ratio for surplus under normal conditions, I do not think the same line of argument is controlling here."

* See Commission Leaflet No. 114, p. 1651.

The depreciation ratio is fixed on an emergency basis.

The monthly figures which measure the condition of The Bell Telephone Company have as two essential factors the elements of surplus and depreciation based on an emergency condition. So long as these factors are limited, as they are, by the Board's action, and so long as the Board does not declare them to be factors based on normal conditions, instead of emergency ones, I do not see how the existing situation can be regarded other than as an emergency one.

The question of economies in connection with the operation of the company is raised, it being alleged that there are economies available which will offset any disadvantageous position in which the company may find itself. In dealing with the condition of a company subject to the Board's jurisdiction and seeking increase in rates, it goes without saying that the Board should be satisfied before allowing any increase that the management is a reasonable and prudent one.

In the evidence given in connection with the case which was decided April 1, 1921,* Mr. Guilfoyle, in answer to a question of Mr. Phippen, said that the company appeared, to the best of his knowledge, to be well and economically managed throughout, and that so far as one could judge from the books had been honestly managed (Evid., Vol. 352, pp. 1067-68).

Mr. Hagenah, in examination by Mr. Osler was asked this question (Evid., Vol. 351, p. 872):

"Now, I think you will agree that this company has been conservatively managed, and well managed?"

He answered:

"I am satisfied it has been. I think the company is to be complimented on the manner in which its business is effected. I speak of that very favourably for the company."

Mr. MacKenzie, (Evid. Vol. 352, p. 1153), in answer to a question of Mr. Phippen, stated that the Bell telephone

* See Commission Leaflet No. 114, p. 1651.

properties had been well conserved, and the credit of the company well conserved. In answer to the specific question,

"The Bell Telephone Company has been a well managed company?"

he answered,

"I would say, very well managed."

This information refers to conditions in 1921. Have there been any such changes in conditions of management as would justify the conclusion that there was not prudent and reasonable management?

In the discussion, attention was directed to the question of wage costs and possible economies in connection therewith, either by way of reducing the number of employees or by reducing the wages of those employed. Without going into the matter in detail, since this has already been developed in the other two judgments, one very important factor in connection with the pressure of increased costs upon the telephone company has been the increase in wages. In the material presented before the Board, there were suggestions that economies in this respect could be made. It seems to me that the main line of attack in regard to the economies which it is contended can be made is in connection with the wage bill. Evidence was put in before the Board on behalf of the company showing decreases in costs which had been operative since September. It was contended by the official of the company responsible that further economies in connection with the reduction of the operating staff were not feasible, as they would mean putting an unduly heavy burden upon the girls operating in the telephone exchanges. While there have been considerable increases in the wages paid in the telephone business, the increase has been gradual, and there is to my mind no such evidence before the Board as would justify it in concluding that the scale of wages paid was in such a degree excessive as to materially affect the decision of the Board as to rates.

What was said about wages was, on the whole, extremely general. On careful consideration of the body of evidence submitted, I am not of opinion that there has been such improvident management as would justify the Board in concluding that the returns in accordance with the findings laid down in the Board's judgment should not be allowed.

The question now has to be considered — what is the situation of the company under the rates which it is allowed to charge, with the limitation attaching thereto, in respect of the factors already defined; and the further question, to what extent the existing situation is in conflict with the findings of the Board as to the factors of return which are reasonable.

As pointed out in the reasons for judgment of Commissioner Boyce, the returns for the eight months' period, projected for twelve months on the same basis, show, after deduction of interest, dividend, surplus, etc., in round numbers, \$600,000 of a deficit. While the summary as given does not refer to depreciation, the depreciation modified and limited, as pointed out, is a factor in this.

It is pointed out in the same reasons for judgment that the economies began to be effective about September. If the figures for September to December, inclusive, are taken and similar deductions made as in connection with the eight months' period, a year projected on this period in which the economies referred to are operative would show a deficit of \$589,486.

As bearing upon the emergency condition, figures in regard to surplus and depreciation may also be accepted for the same period. I take this period to form a projected year because it shows the portion in which the economies emphasized have been operative. In the projected year as set out the revenues as computed fall \$102,380 short of meeting interest and dividends. The item of surplus at 2 per cent. is \$487,106. These two sets of figures make up the total as given. If the surplus were computed as of normal times, say, on 4 per cent. on the stock, this would add another item of \$487,106. The depreciation for the

months September to December amounts to \$775,259, which extended on a year's basis would amount to \$2,325,777.

The rate of depreciation during the months September to December is averaged at 3.8. This, in fact, is the rate from June to December. As pointed out in the decision of 1919,* 5.7 was taken as the emergency rate; and it was subsequently testified by Mr. Hagenah that this amount, under normal conditions, was essential as a minimum, and the proposition for a further reduction in the depreciation ratio was simply as a matter of temporary need. If, instead of the present emergency ratio averaging 3.8 on average plant in service, the emergency ratio of 5.7 taken in the first instance in 1919 were applied, this would mean an addition of 50 per cent. to the depreciation ratio; that is, the total would equal \$3,488,665. Putting it in a summary way, if it were admitted that surplus should be charged as a normal charge at the rate of 4 per cent. on stock, and if a rate of 5.7 were taken as a normal ratio, then these two items would amount to \$1,649,994; or, omitting the item of surplus, the added depreciation would amount to \$1,162,888.

I do not say that these factors should be included as measuring the present need of the company, because I consider the present need of the company still to be an emergency one and measured as to the emergency situation by the limitation in surplus and the limitation in the depreciation ratio; but if it is contended that the emergency situation has passed, then, as a minimum, it would seem to me that the depreciation ratio of 5.7 should be applicable, with the result as to additional need of revenue which is shown.

But, as I have already pointed out, I deal with the matter entirely from the standpoint of an emergency in relation to the principles laid down in the Board's judgments; and I find that if a projected year, based on the eight months' period, is taken, that the company falls some \$600,000 short of the revenue which would accrue on the basis of the factors accepted by the Board, or if the four months' period

* See Commission Leaflet No. 91, p. 609.

from September to December is taken for the reasons already mentioned, it would fall some \$589,000 short of the revenue which would accrue on the basis of the factors accepted by the Board.

In view of the finding of the majority, I will not deem it necessary to express any opinion as to the form or basis of the proposed tariff revision filed by the company in this application.

February 9, 1922.

ORDER.

Decided February 16, 1922.

Upon hearing the application at the various sittings of the Board held in Ottawa, in the presence of counsel for the applicant company, and counsel and representatives for the Province of Ontario, the Ontario Associated Boards of Trade, the city of Montreal, the city of Hamilton, the city of Toronto, the Toronto Board of Trade, the Canadian Manufacturers' Association, the Retail Merchants' Association, the Canadian Lumbermen's Association, and the Hamilton Chamber of Commerce, the evidence offered and what was alleged at the said hearings, and upon reading what has been filed in support of the application and in opposition thereto.

The Board orders, That the application be, and it is hereby, dismissed.

February 16, 1922.

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American Telephone and Telegraph Company
Legal Department
195 Broadway, New York, N. Y.

COMMISSION LEAFLET No. 125

**Recent Commission Orders, Rulings and Decisions
from the following States:**

California
Illinois
Indiana
Kansas
Michigan
Minnesota

Missouri
Nebraska
Oklahoma
South Dakota
Virginia
Wisconsin

MAY 1, 1922

CALIFORNIA.

Railroad Commission.

JACK KINCAID *et al.* v. REEDLEY TELEPHONE COMPANY.

Case No. 1599 — Decision No. 9890.

Decided December 20, 1921.

Reconstruction of Through Line Ordered — Discontinuance of Side Lines Authorized Unless Reconstructed by Owners — Maintenance of Side Lines by Company After Reconstruction by Owners Ordered — Increase in Rates Authorized.

OPINION.

This complaint was filed against the Reedley Telephone Company by 16 farmers who receive telephone service from the Reedley exchange over a through line owned and operated by the defendant, which is known as the Squaw Valley-Dunlap Line and over privately owned side lines running from the through line to the subscribers' premises.

The complaint alleges in effect that the defendant is not maintaining the above-mentioned line in such condition that good telephone service can be rendered over same; that defendant has repaired the side lines at various times when they did not need repairs and rendered a bill to the subscribers for the work performed and that defendant has in some instances discontinued service to subscribers for non-payment of these repair bills.

The Commission is asked to make its order to the Reedley Telephone Company in the following matters:

1. Requiring it to repair the Squaw Valley-Dunlap Line so that good service may be rendered over same.
2. Requiring it to purchase all side lines at a reasonable amount, or
3. Enjoining it from interfering with the side lines and, in this connection,

4. Require complainants to keep their side lines in good condition and repair.

A public hearing was held by Examiner Satterwhite in Reedley on September 23, 1921, and the engineering department of the Commission made a report on the situation which was submitted at the hearing.

Testimony brought out the fact that the defendant had repaired the through line about the time the complaint was filed. The problem, therefore, resolved itself into the solution of the future maintenance and upkeep of the through and side lines.

The report of our engineers suggested several possible ways to rectify the present conditions. The defendant prefers to dispose of its entire equity in this line and have complainants fully responsible for the service. The complainants filed a resolution, passed September 28, 1921, adopting Proposal No. 2 contained in the engineer's report which reads as follows:

The (ownership of the) lines may be permitted to remain as at present with the Reedley company fully responsible for the maintenance and operation of both the main and side lines. The subscribers would be required then to pay a monthly rate sufficiently high to defray this expense.

Inasmuch as the through line connects with the station called Dunlap and is the only means of securing toll communication with outside towns from the General Grant National Park and the Sequoia National Park, we feel that the company should be responsible for the continuance of this service.

We are convinced that the most feasible plan is that adopted by complainants and we have reached the conclusion that the rates for service on this line should be raised from \$2.00 per month, per station, to \$4.00 for residence service and from \$2.25 per month, per station, to \$4.25 for business service.

These rates shall remain in effect for one year, during which time defendant shall keep a record of the actual cost of maintaining the side lines and the main line. At the end of this period the reasonableness of the proposed

C.L. 125]

rates may be determined and such changes made in them as are found advisable.

It will be necessary for both the complainants and the defendant to reconstruct their respective lines to the extent required to meet the standards of construction approved by this Commission for territory of this character. These standards will be furnished by the Commission.

ORDER.

Jack Kincaid *et al.*, having made complaint in the above-entitled proceeding, a public hearing having been held thereon, and the Commission being fully informed in the matter;

It is hereby ordered, That defendant shall reconstruct the so-called Squaw Valley-Dunlap Line to the extent necessary to comply with the standards of construction which the Commission will require for this line. This work shall be completed within ninety days from the date of this order unless good cause is shown for an extension of time.

It is hereby further ordered, That ninety days from the date of this order defendant may discontinue service to each complainant or other subscriber on this line who owns a side line unless such side line has been reconstructed to the extent necessary to comply with the standards of construction which the Commission will require for these side lines, provided the main line reconstruction has been completed within said time and unless good cause is shown by the subscribers for an extension of time.

It is hereby further ordered, That defendant is hereby authorized to file with this Commission within thirty days from the date of this order a schedule of rates for service on this line as follows:

	<i>Per Month</i>
Business, wall	\$4 25
Residence, wall	4 00
Desk telephones, additional.....	25

Upon approval these rates may be made effective after completion of the work hereinbefore specified, subject to such modification, if any, as the Commission may hereafter find to be reasonable.

It is hereby further ordered, That after completion of the reconstruction required by this order, defendant shall maintain both the main and the side lines and the station apparatus connected thereto, in such condition that good and efficient telephone service can be given over them. The monthly rental for service shall constitute the compensation for this work.

It is hereby further ordered, That defendant shall keep a record of the actual cost of maintaining the side lines and a record of the actual cost of maintaining the main line for a period of one year from the date of making the proposed rates effective. These records shall be in sufficient detail to permit a complete check to be made of them.

Dated at San Francisco, California, this twentieth day of December, 1921.

In re APPLICATION OF SOUTHWESTERN HOME TELEPHONE COMPANY FOR AN ORDER AUTHORIZING SAID COMPANY TO ESTABLISH CERTAIN INCREASED RATES, TOLLS AND CHARGES.

Application No. 6398 — Decision No. 9910.

Decided December 21, 1921.

Increase in Rates Authorized Estimated to Yield 6.4 Per Cent. on Company's Valuation.

OPINION.

Southwestern Home Telephone Company, applicant in this proceeding, owns and operates telephone exchanges serving the cities and towns of Redlands, San Bernardino County, and Banning, Beaumont, Elsinore, Hemet, Perris, San Jacinto and Temecula, Riverside County, and adjacent territory. The application as originally filed sets forth

that the rates now in effect do not yield revenue sufficient to meet actual and reasonable maintenance and operating expenses, together with a reasonable depreciation annuity and to yield a fair return on the fair value of the property, used and useful, in the public service. The Commission is asked to make its order authorizing applicant to establish rates set forth in the application amounting to an increase of $33\frac{1}{3}$ per cent. over the present rates.

Public hearings were held in Redlands on April 5 and in Los Angeles on July 1, 1921.

At these hearings applicant filed a number of exhibits, among which are statements of claimed investment, together with statements of receipts and expenditures for the year 1920, and of estimated receipts and expenditures for the year 1921 under the proposed rates, the purpose of these exhibits being to show the necessity for increasing the present rates. The investment claimed by applicant is based on an inventory prepared by it during the year 1914, to which net additions to December 31, 1920 have been added. The engineering department of the Commission has also made and presented a valuation report in which a valuation is found considerably lower than that claimed by the applicant.

At a conference held on November 26, 1921, between representatives of the applicant and of the Railroad Commission it was agreed that the company and the Commission's engineering department should each submit a statement setting forth their different views relative to the valuation of the applicant's property. It was also agreed at this conference by reason of the fact that the company and the Commission's engineering department do not agree as to what the fair value of this property is and particularly since applicant admits that it will be unable to establish and collect rates sufficient to yield a fair return on what it considers a fair valuation of its property, that it would submit modified schedules in lieu of those originally set out in its application. The statements and modified sched-

ules have since been submitted and the matter is now ready for decision.

The valuation found by the engineering department of the Commission and shown by the valuation report previously referred to was \$382,297. This valuation is on a historical reproduction cost undepreciated. After conference with representatives of the company, the Commission's engineering department has made corrections to the original figure resulting from certain additions and deductions, bringing the original valuation up to \$392,148, as shown by the engineering department's statement above referred to. The company's statement of comparable items shows a valuation of \$491,735.51, to which is added an item of \$12,761 for materials and supplies and a further item of \$7,000 for working capital, making a total of \$511,496.51, which is the amount now claimed by applicant as a proper rate base. In comparison, the items appearing in these two statements are as follows:

	<i>Statement of Engineering Department</i>	<i>Statement of Company</i>
Physical property	\$374,442 00	\$418,860 86
Development expenses	3,883 00	60,612 00
Franchises, contracts and rights-of-way....	1,062 00	12,262 65
Materials and supplies	12,761 00	12,761 00
Working capital .....	.....	7,000 00
	<hr/>	<hr/>
TOTALS	\$392,148 00	\$511,496 51

The amounts shown in the statements of the engineering department are below those of the company in the items and to the extent following:

Physical property	\$44,418 86
Development expenses	56,729 00
Franchises, contracts and rights-of-way.....	11,200 65
Working capital	7,000 00
	<hr/>
TOTAL	\$119,348 51

This difference in valuation of physical property arises chiefly from the fact that the company's appraisal is based on unit costs representing average prices of labor and material prevailing in 1914, the year during which its plant was inventoried, while those applied by the Commission's engineers are average historical costs obtained in most cases from the company's voucher records.

The amount claimed by the company for development expense, according to its statement, is the amount which has been carried on its books. The amount allowed in the engineering department's statement for this item is one per cent. of the total of physical property, franchises, contracts and rights-of-way, and materials and supplies.

The amount claimed by the company for franchises, contracts and rights-of-way, as its statement shows, is also the amount appearing on its books for these items. It appears on the statement of the Commission's engineers that there are two items included in the company's claim as follows: one item of \$1,000 covering a contract for the joint occupancy of poles entered into during the year 1914 and growing out of a controversy between the applicant and the Southern Sierras Power Company, concerning the use of certain streets for the location of their respective lines; the other, an item of \$10,200, covering a contract with The Pacific Telephone and Telegraph Company for the purchase of property from the Pacific company by the applicant and for the interexchange of service between the contracting parties. In each of these two transactions the expenses involved are capitalized by the company in its statement, and in connection with the latter transaction, there appears an issue of \$10,000, par value, of bonds to Mr. C. D. Rolfe for his services in this transaction, this amount being included as a capital charge in the company's claim. The sum claimed by the company for these two contracts, \$11,200, is not included in the statement of the Commission's engineers.

The amount claimed by the company for working capital, \$7,000, is an amount which it claims represents substantially

one month's operating expenses to which it urges it is entitled for working capital. A statement of the Commission's engineers disallows this item on the theory that since the company collects its rates in advance and the revenues thus collected being in excess of its monthly operating expenses it is not entitled to any claim for working capital.

I do not consider it necessary for the Commission to come to a decision in this proceeding on the merits of the disputed items of the valuation. It may be stated, however, that the valuation of this property was made by the Commission's engineering department under the same methods and following the same general rules as have been adopted and approved by the Commission in all public utility valuations for rate-making purposes. There is no doubt, I believe, that the Commission would disallow, if the matter had to be decided, the capitalized value of the contract with The Pacific Telephone and Telegraph Company (since the expenses arising from that contract to applicant are allowed in operating expenses) and would also disallow, for rate-making purposes, the item of development expense. These matters do not appear to be of controlling importance, however, because, as will be shown hereunder, the rates proposed will produce for applicant a fair return on a reasonable investment or valuation figure.

The rates at present in effect and those which the applicant now desires to make effective, insofar only as increases in present rates now being sought are involved, are as follows:

In re APPLICATION OF SOUTHWESTERN HOME TEL. CO. 1185
C. L. 125]

	<i>Business Service, Monthly Rate</i>		<i>Residence Service, Monthly Rate</i>	
	<i>Present Wall Set</i>	<i>Proposed Wall Set</i>	<i>Present Wall Set</i>	<i>Proposed Wall Set</i>
<i>Redlands Exchange:</i>				
One-party line.....	\$4 25	\$5 25	\$3 25	\$4 00
Two-party line.....	3 75	4 50	2 50	3 00
Four-party line.....	3 75	4 50	2 50	3 00
Eight-party line.....	3 75	4 50	2 50	3 00
Suburban line.....			3 50	4 00
Employees.....			1 50	1 75
<i>San Jacinto and Hemet Exchanges:</i>				
One-party line.....	3 25	4 00	2 75	3 00
Four-party line.....	2 75	3 50	2 25	2 50
Eight-party line (Block 2).....	2 75	3 50	2 25	2 50
Eight-party line (Block 3).....	3 00	3 75	2 50	2 75
Eight-party line (Block 4).....	3 25	4 00	2 75	3 00
Eight-party line (Block 5).....	3 50	4 25	3 00	3 25
Eight-party line (Block 6).....	3 75	4 50	3 25	3 50
<i>Mountain Lines:</i>				
Oak Grove and Idyllwild.....	3 75	4 50	3 25	3 50
Winchester line.....	3 25	4 00	2 75	3 00
Employees.....			1 50	1 75
<i>Perris Exchange:</i>				
One-party line.....	3 25	3 75	2 75	3 00
Four-party line.....	2 75	3 25	2 25	2 50
Eight-party line (Block 2).....	2 75	3 25	2 25	2 50
Eight-party line (Block 3).....	3 00	3 50	2 50	2 75
Eight-party line (Block 4).....	3 25	3 75	2 75	3 00
Suburban line (Block 5).....			2 75	3 00
Employees.....			1 50	1 75
<i>Elsinore Exchange:</i>				
One-party line.....	3 25	3 75	2 75	3 00
Four-party line.....	2 75	3 25	2 25	2 50
Eight-party line (Block 2).....	2 75	3 25	2 25	2 50
Eight-party line (Block 3).....	3 00	3 50	2 50	2 75
Eight-party line (Block 4).....	3 25	3 75	2 75	3 00
Employees.....			1 50	1 75

For desk sets in place of wall sets, add 25 cents per month to each of the rates quoted above.

The rates quoted above are gross monthly rates. Discounts from each of the above rates for advance payment are allowed as follows:

For monthly payments made on or before the tenth day of the current month, 25 cents.

For quarterly payments in advance on or before the tenth day of the first month of the quarter for which payment is made, \$1.00.

If paid annually in advance, \$4.50.

Applicant has presented with its proposed schedule of modified rates shown above an estimate of the increase in gross revenues which it would derive from these rates over actual gross revenues for the year 1920, this estimate being based on the stations actually in service on November 1, 1921. The amount of revenue increase shown by this estimate after deducting 1½ per cent. for temporary loss of

subscribers and for regrading of subscribers following the proposed increase in rates is \$14,514. It does not, however, take into account any increase in revenue through possible growth of the business. Undoubtedly there should be some allowance made for the purposes for which this 1½ per cent. has been deducted, but consideration should also be given to such increases in revenue as may result from a growth in business. Conditions are such in the territory in which applicant operates that in our opinion the growth in business to be expected will be limited, and this view is supported by applicant's experience in former years. It seems reasonable to assume, however, that the growth in business will at least be sufficient to offset the temporary loss of 1½ per cent. for which applicant has made allowance in its estimate. On this basis the amount of revenue increase resulting from the proposed rates would be \$16,059.

The actual gross revenues and operating expenses exclusive of depreciation reported by the company for the year 1920 were \$111,918.36 and \$74,261.92, respectively. During the four months of the year from September 1 to December 31, 1920, operators' salaries were higher than during the first eight months of the year. This item of operating expense will therefore be greater in 1921 than it was in 1920. The amount paid out for taxes in 1921 is also greater than the amount paid out during 1920. Estimated operating expenses for 1921, taking 1920 expenses as a basis after allowing for necessary increases in operators' salaries and taxes and after certain deductions, (consisting of an adjustment in charges to accidents and damages and to automobile hire) to which applicant has agreed, have been made, will amount to \$74,190.65. After allowing one-half of one per cent. of gross revenues for uncollectable revenues and adding to operating expenses 3.3 per cent. of the value of the depreciable property found by the Commission's engineers for depreciation annuity, this addition of \$16,059 for gross revenues would leave a net income of \$40,245.83. This amount would be equivalent to a return slightly in

excess of 10 per cent. on the valuation found by the Commission's engineers, plus \$7,000 for working capital, or 7.7 per cent. on the company's valuation.

On the basis above referred to, as to operating expenses and depreciation, the rates hereinafter suggested should yield a return of 8.24 per cent. on the valuation found by the Commission's engineers, had the Commission allowed the company's claim for \$7,000 for working capital, or 6.4 per cent. on the company's valuation. Under the circumstances in this case, it is our opinion that rates which will yield this amount of net return are reasonable.

The rates suggested are as follows:

	<i>Business Service, Monthly Rate Wall Set</i>	<i>Residence Service, Monthly Rate Wall Set</i>
<i>Redlands Exchange:</i>		
One-party line.....	\$5 00	\$3 75
Two-party line.....	4 25	2 75
Four-party line.....	4 25	2 75
Eight-party line.....	4 25	2 75
Suburban line.....		3 75
Employees.....		1 75
<i>San Jacinto and Hemet Exchanges:</i>		
One-party line.....	3 75	2 75
Four-party line.....	3 25	{ Block 1 2 25
Eight-party line (Block 2).....	3 25	2 25
Eight-party line (Block 3).....	3 50	2 50
Eight-party line (Block 4).....	3 75	2 75
Eight-party line (Block 5).....	4 00	3 00
Eight-party line (Block 6).....	4 25	3 25
<i>Mountain Lines:</i>		
Oak Grove and Idyllwild.....	4 25	3 25
Winchester line.....	3 75	2 75
Employees.....		1 75
<i>Perris Exchange:</i>		
One-party line.....	3 50	2 75
Four-party line.....	3 00	2 25
Eight-party line (Block 2).....	3 00	2 25
Eight-party line (Block 3).....	3 25	2 50
Eight-party line (Block 4).....	3 50	2 75
Suburban line (Block 5).....		2 75
Employees.....		1 75
<i>Elsinore Exchange:</i>		
One-party line.....	3 50	2 75
Four-party line.....	3 00	2 25
Eight-party line (Block 2).....	3 00	2 25
Eight-party line (Block 3).....	3 25	2 50
Eight-party line (Block 4).....	3 50	2 75
Employees.....		1 75

For desk sets in place of wall sets, add 25 cents per month to each of the rates quoted above.

The following order is recommended:

ORDER.

Southwestern Home Telephone Company having applied to the Railroad Commission for an order authorizing said company to establish certain increased rates, tolls, rentals and charges; public hearings having been held, the case having been submitted, and the matter being now ready for decision;

It is hereby ordered, That Southwestern Home Telephone Company be, and it is hereby, authorized to publish and file with this Commission within thirty days from the date of this order and to make effective on and after January 1, 1922, the schedule of rates set forth in the opinion preceding this order as suggested rates, subject to the conditions following:

(1) The rates herein authorized shall be subject to the same discounts for advance payment as are at present in effect.

(2) All of the rates and all of the rules and regulations affecting rates now in effect other than those provided for in the schedule herein authorized shall be continued in effect until or unless otherwise authorized by the Commission.

(3) Efficient and adequate telephone service shall at all times be provided to all subscribers.

The foregoing opinion and order are hereby approved and ordered filed as the opinion and order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this twenty-first day of December, 1921.

In re APPLICATION OF CALIFORNIA TEL. AND LIGHT Co. 1189
C.L.125]

In re APPLICATION OF CALIFORNIA TELEPHONE AND LIGHT
COMPANY FOR AN ORDER AUTHORIZING THE ISSUE OF
ADDITIONAL SHARES OF ITS 6 PER CENT. CUMULATIVE
PREFERRED STOCK.

Application No. 7385 — Decision No. 9916.

Decided December 23, 1921.

Issue of Stock Authorized — Stock to be Delivered to Holders of Preferred Stock in Payment of Accumulated Dividends.

OPINION.

California Telephone and Light Company asks permission to issue \$206,200, par value, of its 6 per cent. cumulative preferred stock. Applicant asks permission to issue \$154,600 of the stock to reimburse its treasury on account of earnings invested in properties from March 1, 1913, to September 30, 1921, and to sell \$51,600 of the stock at not less than \$80.00 per share and use the proceeds to pay in part the cost of additions, betterments and improvements installed subsequent to October 31, 1921.

At the hearing had on this application on December 15, applicant was requested to file with this Commission a statement showing the investment in its properties since the appraisal of its properties by the Commission's engineering department. Such statement has been filed by applicant. It shows that the total of the Railroad Commission's engineering department's appraisal, which is as of June 30, 1916, and the cost of additions and betterments to November 30, 1921, amounts to \$1,151,938.08.

Applicant reports stocks and bonds outstanding as follows:

Common stock	\$764,850 00
Preferred stock	343,886 66
Bonds	602,900 00
<hr/>	
TOTAL	\$1,711,636 66

Applicant's current liabilities are reported at \$99,-047.53 and its current assets, exclusive of materials and

supplies, at \$53,860.46. Materials and supplies are excluded from the current assets for the reason that they are included in the figure showing the company's investment as of November 30, 1921.

As of October 31, 1921, applicant reports an accumulated surplus of \$161,645.21 as compared with a surplus of \$12,121.94 on January 1, 1916. The increase in the accumulated surplus is in general accounted for by the investment of surplus earnings in properties.

In Exhibit No. 3, applicant reports that from March 1, 1913, to October 31, 1921, it expended for additions and betterments the sum of \$512,127.44. Applicant's Exhibit No. 6 shows that of these expenditures, \$321,801.36 have been financed through the issue of stock and bonds. Deducting the \$321,801.36 from the \$512,127.44 leaves \$190,326.08, which represents capital expenditures which applicant alleges have not been paid for with the proceeds obtained from the sale of stock or bonds. Applicant now asks permission to issue \$154,600 of stock to reimburse its treasury in part on account of the reported expenditures of \$190,326.08, which applicant claims were made solely from the surplus earnings and which would have been available for dividends had they not been reinvested in plant and properties. I question the correctness of applicant's conclusion that all of the \$190,326.08 might have been distributed in dividends had that amount not been invested in properties. I do this for the reason that it appears from applicant's statements that the moneys represented by its reserve for accrued depreciation reported on October 31, 1921, at \$90,616.28, have been invested in applicant's business and that the moneys represented by such reserve would not be available for the payment of dividends. Applicant's accumulated surplus is in excess of \$154,600 and it is therefore not necessary to determine what part of the \$90,616.28 reported under Reserve for Accrued Depreciation represents investment in additions and betterments. The application can be granted without such a determination.

After reimbursing its treasury, the company intends to deliver the \$154,600 of stock to the holders of the present outstanding stock in liquidation and payment of all accumulated and unpaid dividends on the preferred stock, such stock to be delivered on the basis of one share for each \$80.00 of accumulated dividends. As stated above, applicant as of October 31, 1921, reported \$343,886.66 of preferred stock outstanding. No dividends have been paid on this stock since December 20, 1915. From that date to December 20, 1921, the accumulated dividends amount to \$123,686.21.

Applicant's officers are of the opinion that if the accumulated dividends are paid in the manner indicated, it will be able to sell preferred stock to pay part of the cost of additions and betterments. It asks permission to sell \$51,600 of stock at \$80.00 per share to secure funds to pay for additions and betterments referred to in its Exhibit No. 5. In this exhibit, applicant estimates that during 1922, it will be called upon to expend on its telephone properties for additions and betterments the sum of \$19,809.11, on its electric properties the sum of \$68,266.91 and for general equipment the sum of \$2,378.20, making a total of \$90,454.22. The order herein will permit applicant to issue and sell \$51,600 of stock at 80 for the purpose of paying in part for additions and betterments installed subsequent to October 31, 1921. Before using any of the moneys for these purposes, applicant will be required to file with the Commission a detailed statement of moneys actually expended for additions and betterments. On the filing of such statement, the Commission will make such supplemental order or orders permitting the use of the proceeds as it may deem proper.

Mr. A. F. Hockenbeamer, one of applicant's directors, testified that in his opinion the great majority, if not all, of the present holders of preferred stock will agree not only to accept stock in payment for their unpaid accumulated dividends, but also agree to purchase a part of the \$51,600 of additional stock offered for sale.

In Decision No. 721 dated June 30, 1913 (Vol. 2, Opinions and Orders of the Railroad Commission of California, pp. 1002-13), the Railroad Commission ordered applicant to set aside from income each year for ten years beginning with the calendar year 1914 the sum of \$2,500 in addition to such sums as may be required to be set aside for sinking fund or depreciation purposes under its first mortgage and deed of trust, and in addition to such sum as the Commission might thereafter require it to set aside for depreciation. Statements filed by applicant show that it has set aside annually the sum of \$2,500. Under the order of the Commission, applicant was permitted to use the annual sum of \$2,500 either for the purpose of retiring bonds or for the purpose of paying for additions and betterments which should remain uncanceled. The company has heretofore advised the Commission that it will use the annual payment of \$2,500 for financing additions and betterments to its properties. Up to October 31, 1921, \$19,583.33 of earnings have been appropriated for this purpose. The \$19,583.33, it appears to us, should be deducted from the company's alleged uncanceled expenditures of \$190,326.08, as of October 31, 1922. If this is done, there remains uncanceled a reported expenditure of \$170,742.75, an amount in excess of the stock which applicant asks permission to issue to reimburse its treasury.

I herewith submit the following form of order.

ORDER.

California Telephone and Light Company having applied to the Railroad Commission for permission to issue preferred stock, a public hearing having been held and the Railroad Commission being of the opinion that the money, property or labor to be procured or paid for by such issue is reasonably required for the purposes specified herein and that the expenditures herein authorized are not reasonably chargeable to operating expenses or to income;

It is hereby ordered, That California Telephone and Light Company be, and it is hereby, authorized to issue on or before June 30, 1922, \$206,200 of its 6 per cent. cumulative preferred stock.

The authority herein granted is subject to the following conditions: (1) Of the stock herein authorized to be issued \$154,600 shall be used for the purpose of reimbursing in part applicant's treasury on account of surplus earnings invested in additions, betterments and improvements to its properties prior to October 31, 1921. Following the reimbursement of applicant's treasury, the stock may be delivered to the holders of outstanding preferred stock in liquidation and payment of all accumulated and unpaid dividends on the preferred stock, such \$154,600 of stock to be delivered on the basis of \$80.00 per share and under the conditions outlined in the application and testimony.

(2) Of the stock herein authorized to be issued, \$51,600 shall be sold by applicant, for cash, at not less than \$80.00 per share and the proceeds deposited in a special fund and expended only for such purposes as the Railroad Commission may hereafter authorize by a supplemental order or orders.

(3) California Telephone and Light Company shall keep such record of the issue, sale and delivery of the stock herein authorized and of the disposition of the proceeds as will enable it to file on or before the twenty-fifth day of each month a verified report as required by the Railroad Commission's General Order No. 24,* which order insofar as applicable is made a part of this order.

The foregoing opinion and order are hereby approved and ordered filed as the opinion and order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this twenty-third day of December, 1921.

* See Commission Leaflet No. 9, p. 82.

In re APPLICATION OF THE SOUTHERN CALIFORNIA TELEPHONE
COMPANY FOR AN ORDER FIXING RATES FOR TELEPHONE
SERVICE AND DEFINING EXCHANGES AND EXCHANGE
BOUNDARIES IN THE CITY OF LOS ANGELES.

Application No. 6285 — Decision No. 10142.

Decided March 4, 1922.

**Rates and Classification of Service as Fixed by Original Order Approved
— Rules Governing Credit Allowance for Lapse of Service
Established — Normal Conditions as to Orders for In-
stallation Defined — Boundaries of Primary Rate
Area Modified — Separate Schedule of Rates
Fixed for South Pasadena Local Ex-
change — Former Order Sus-
tained with Exceptions.**

On December 14, 1921, the Commission entered on order* in the above-entitled case fixing a tentative value of applicant's property and establishing rates for Los Angeles.

The city alleging that the service was inadequate and insufficient; that orders for installations were accumulating and not being cared for; that changes, improvements and betterments were not being made with sufficient rapidity to take care of the growth of the business; that the inclusion in the valuation of \$6,738,000 representing expected additional capital investment during the coming year was improper, unfair and unjust, requested a rehearing which was granted.

The Commission stated that the rates had been raised in the face of existing conditions due to the conviction on the part of the Commission that the only practical way of solving the service conditions and of providing adequate telephone service was to place the company in a position where the people were entitled to receive and where the Commission could require that the company furnish adequate service; that nothing had developed during the rehearing to change this conviction and that the original order* provided the only practical means to overcome existing difficulties.

The Commission found that new capital from outside sources, and in no sense either directly or indirectly contributed by rate payers, had been provided and was now available not merely in the amount of \$6,738,000 as allowed in the former valuation, but actually in excess of \$9,000,000, and therefore that the city's allegation that there was no assurance of an

* See Commission Leaflet No. 123, p. 549.

investment on the part of the company of the sum of \$6,738,000 during the present year for new facilities was not borne out by the facts, and that the city was in error in these allegations.

The Commission stated that it was in accord with the position of the city, that the company should be expected and forced, if necessary, to give reasonable service, and that it intended to make use of every means within its power to have service restored to normal as rapidly as possible, and that for lapses in service for which the company was responsible it should be held to strict accountability.

The Commission further found that the principal cause for poor service conditions was the reconstruction now going on in all exchange districts; that the president of the company should be required to assume personal charge and be held responsible for the progress of the work; that construction and service engineers were already on the ground, or on the way there, who would give their entire time to the reconstruction work until the program as outlined in this order would be completed, and that in view of the measures already undertaken or about to be undertaken by the company the position of the city "that there was no reasonable expectation of improvement and no definite assurance of any kind whatever that any change in present conditions was contemplated" could not be maintained.

Held: That the company should immediately make arrangements to provide for automatic credit allowance to subscribers in all cases of lapse of service, such credit allowance to be governed by rules and regulations as set out in full in the order herein entered;

That the company should make every effort to bring to normal proportions at the earliest possible moment the abnormally large number of delayed orders held for installation and all other held orders, and should carry out the program for such purposes as set out in the opinion herein entered; that normal conditions should not be deemed to exist unless the total number of held orders now amounting to more than 12,200 should be reduced to 4,000 or less; that unless such normal conditions were brought about by November 15, 1922, it would be deemed that the company was either unwilling or unable to render adequate and normal service, and that the Commission would proceed on its own initiative with a reconsideration of the rates established;

That the boundary of the Los Angeles primary rate area as heretofore outlined should be modified as in this order set forth;

That the company should make effective not later than April 1, 1922, schedules of rates to apply uniformly within the municipal limits of the city of South Pasadena establishing the following classes of service, provided that subscribers and applicants for service should be given the option of either one of two schedules of rates and should be entitled to the service for which the particular rate schedule selected should provide, such schedules being as follows: Schedule No. 1. Unlimited local service

within the city of South Pasadena; business, individual line, \$4.00, party line, \$3.00; residence, individual line, \$2.75, two-party line, \$2.25, four-party line, \$2.00, 25 cents per month extra to be charged for desk sets. Schedule No. 2. Unlimited Los Angeles exchange service: business, individual line, \$10.50, two-party line, \$8.00; residence, individual line, \$5.25, two-party line, \$4.00, four-party line, \$3.25, 25 cents per month extra to be charged for desk sets;

That in all matters other than those dealt with in the order herein entered the order of the Commission in the original case* should be and remain in full force and effect.

OPINION ON REHEARING.

The Commission, in this application, made its decision on December 14, 1921 (Decision No. 9864).^{*} Applications for rehearing were filed on December 31, 1921, by the city of Los Angeles and on January 20, 1922, by the city of South Pasadena.

The city of Los Angeles asked that the effective date of Decision No. 9864^{*} be postponed pending the determination of the application for rehearing and that the order authorizing the Southern California Telephone Company (hereinafter referred to as the company) to make the rates established by the Commission effective as of January 1, 1922, be annulled.

On December 31, 1921, this Commission ordered[†] the granting of a rehearing and ordered further that the order^{*} made on December 14, 1921, should remain in full force and effect and that neither the provisions relative to rates nor any of the other provisions or requirements should be suspended or postponed by the order granting the rehearing.

Hearings were held on January 23 and 27, 1922, additional testimony was heard and new exhibits were introduced, the matter was submitted and is now ready for a decision.

* See Commission Leaflet No. 123, p. 549.

† Noted in Commission Leaflet No. 123, p. 549.

POSITION OF THE CITY OF LOS ANGELES.

The grounds upon which the city asks for rehearing fall into two classes: one relating to service, the other relating to matters of rate base, revenues and expenses. Of the two, the matter of service is of the greater importance.

The city maintains that all rates are based upon the proposition that adequate service is being rendered to persons depending upon the utility seeking such rates, and that any charge made or payments required by a public utility which has not rendered the service for which such charge or payment is required is unlawful and without justification; that the company is not now and has not, for the preceding period of at least thirty days in particular, rendered reasonable or dependable service to its subscribers and that there is no reasonable expectation of improvement and no definite assurance of any kind whatever that any change in present conditions is contemplated by the company.

The application alleges that during a recent storm more than 20,000 telephones in the city of Los Angeles had been out of use for considerable periods of time; and that the entire system has so completely failed as to make it ineffectual and inadequate to meet the needs of the public and the requirements which the people of the community have a right to expect and to rely upon from its telephone system; that many hundreds of individual telephones have been out of order and useless for such a length of time as to justify, in equity and good conscience, a refund in the rental charge for the current month and that the number of subscribers so affected is so large as to make it impracticable to give them individual attention, and the city asks that this Commission take this situation into consideration in connection with the rate proceeding. The city alleges that one of the principal reasons for the breakdown in the telephone system and failure of service was the failure of the company to replace old worn-out and inadequate cables and equipment and that this situation was the direct

result of the failure of the company to use the depreciation fund for the purpose for which it was originally intended, to-wit: the replacement of worn-out and inadequate portions of the plant.

It is urged by the city that the service rendered by the company has been steadily growing worse for at least one year and that the service rendered at this time is so deplorable and so far below a normal and reasonable service that the original rates are more than a just, fair, and reasonable compensation therefor; and that any increase in the rates without definite and radical requirements toward improved service as conditions precedent to such increase would be unreasonable, unfair, and unjust.

The city alleges that on the date of the filing of the application for rehearing there were still unfilled 11,596 orders for telephones on the books of the company by persons not now receiving service, in addition to 5,635 who require some change in service.

The application calls attention to the fact that, in March, 1921, the company assured this Commission and the city that the list of unfilled orders would be reduced to a normal condition by October, 1921, and that thereafter persons ordering service would receive same within approximately one week; that this promise was not fulfilled and that the number of unfilled orders is now in excess of the number at the time when the promise was made.

The application calls attention to the further fact that at an engineering conference held just prior to the last formal hearing in the rate proceeding, the company's representatives gave assurance that a normal condition would exist by March, 1922, but that since then an official of the company had stated to the representative of the city of Los Angeles that the company did not mean to give assurance of a normal condition of the unfilled order list by said date and that the prediction made in November, 1921, would not be fulfilled.

The city alleges that it is impossible for persons desiring telephones, either for residence or business purposes,

to receive any assurance that, or when, they will be able to receive service, and that the absolute needs of the community require radical improvement in this particular, and the application expresses the lack of confidence on the part of the city in the promise of the company and expresses the opinion that the experience had with the company in the past indicates beyond question that the needs of the city will not properly be met unless an increase in rates is made subject to definite requirements as to installation and general service as conditions precedent to such increase.

With reference to grounds other than unsatisfactory service, the city objects to the addition to the rate base of the sum of \$6,738,000, representing expected additional capital investment during the coming year and alleges that the inclusion of this amount is improper, unfair, and unjust; that there is no assurance of the amount that will be invested, or of the time when such investment may be made. The city suggests that two sets of rates should be specified in an order by this Commission, one to take effect after the performance of certain conditions affecting service and the other after it has been shown that a certain definite amount of additional capital investment has been made.

The city again calls attention to the division of toll revenue and alleges that the record shows this division to be unfair and unjust to the rate-payers in Los Angeles.

To substantiate its position in the matter of service the city introduced in evidence between 2,000 and 3,000 letters of complaint written by Los Angeles telephone users and dealing with many causes of unsatisfactory service. A large number of witnesses with service complaints were also heard. There was also introduced in evidence city's Exhibit No. 2 on rehearing, being the report of the chief engineer of the Board of Public Utilities of the city of Los Angeles dealing with service conditions, the matter of the poor condition of the company's physical plant, and the matters of toll revenues, expenses, rate areas and rates.

It may be said that in this exhibit the city reiterates and amplifies the position taken on these matters at the time of the original hearing.

SERVICE.

There has never been any doubt in the mind of the Commission during the entire course of this proceeding, and in fact prior to this proceeding, that the matter of service was and still is of paramount importance. We made reference in Decision No. 9864* to the service investigation instituted on our own initiative in Case No. 1531, which case is still pending and will be kept open in order that further careful attention may be given to this matter. We said, in the decision referred to:

"Service conditions must be improved and means must be found to meet more promptly and more satisfactorily than in the past the demand for new telephones that is bound to continue at a rapid rate in Los Angeles. The rates fixed in this decision will make it possible for applicant to render a high-class telephone service."

And the order authorizing increased rates was made subject to the condition that adequate and efficient telephone service shall be rendered at all times for all classes of service. We are fully aware of the present unsatisfactory telephone service conditions in Los Angeles. That the rates were raised in the face of such conditions was due to the conviction on the part of the Commission that the only practical way of solving the service conditions and of providing adequate telephone service for the people of Los Angeles was to place the company in a position where the people were entitled to receive and where the Commission could require that the company furnish adequate service. Nothing developed during the rehearing to change this conviction. Unless practicable means can be found to provide Los Angeles, with its unprecedented growth, with adequate telephone service, not only for the present time but for the years to come, we are convinced that there will

* See Commission Leaflet No. 123, p. 549.

be a serious loss and a handicap to the continued prosperity of the city.

The Commission's order in this case, we are satisfied, has already provided the only practicable means to overcome these difficulties.

The service, while still below normal, is showing a material improvement as compared with conditions before the prior decision* in this case. Telephone users in Los Angeles should, nevertheless, realize that for some time to come it will not be possible to furnish normally satisfactory service. The reasons for this situation we have discussed in Decision No. 9864.* Only in part can the company be held responsible for the present condition. Los Angeles does not yet sufficiently realize the consequences of the fact that in the last few years it has made a greater demand on the telephone system both as to existing and additional service, than any other city in the United States, without exception. And it appears that these large demands are continuing.

The city's allegation that there is no assurance of an investment on the part of the company of the sum of \$6,738,000 during the present year for new facilities is not borne out by the facts. Proofs have been furnished satisfactory to the Commission, that there is now available not merely the sum mentioned for capital facilities but a very considerably larger sum (in excess of \$9,000,000). The raising of this new capital was due directly to the decision in this case and we are satisfied that the capital could not have been found unless the company was allowed earnings sufficient at least to pay for the cost of new money. This Commission will insist that this money be expended for the betterment of the service as rapidly as a due regard for physical possibilities and considerations of reasonable efficiency will permit.

We are in accord with the position of the city that the company must be expected and must be forced, if neces-

* See Commission Leaflet No. 123, p. 549.

sary, to give reasonable service, and the Commission intends to make use of every means within its power to have service restored to a normal and efficient standard as rapidly as possible. The rates fixed by the Commission are adequate to provide such service. We are further of the opinion that for lapses in service, for which the company is responsible, it should be held to strict accountability. A subscriber should not be expected to pay for service which is not rendered. Some simple workable rule should be adopted to cover a lapse of service and the subscriber should be credited with an appropriate amount for the loss of service suffered. This should be done voluntarily by the company and the subscriber should not be put to the trouble and necessity of having to prove the justness of his complaint. The order in this decision will require the company to adopt a rule to accomplish this purpose.

Nothing, however, can insure permanent good service except entire reconstruction of inadequate plant facilities and construction and installation of new facilities to meet the requirements for additional service. A considerable period of time must necessarily elapse before such reconstruction and new construction can be completed. We have given much thought to the best possible service improvement and construction program that may be expected of the company and a number of conferences on this subject have been held by us with the company's officials and our own engineers. While there is a distinction between normal service to the present subscribers and the service desired by those who have ordered telephones and are waiting for installations, we recognize that these two factors are interdependent and that it will not be possible to speak of good or normal telephone service in Los Angeles until both the congestion caused by the abnormal number of delayed orders has been relieved and the service to the present subscribers has been improved. The principal cause for poor service conditions with present subscribers is found in the reconstruction now

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going on in all exchange districts, principally the Main-Olive districts comprising the business sections of the city of Los Angeles. This "backbone construction," we are satisfied, can be completed by the company, if every possible effort is made, not later than June 15 of this year. By that time all reconstruction in central office equipment and outside plant in all exchange districts should be completed and the service to all present subscribers should then be normal. June 15 of this year, therefore, we consider as the latest date when abnormal plant conditions and deferred maintenance may be given by the company as a justifiable excuse for subnormal service. The automatic adjustment of subscribers' bills prescribed in this decision is designed to allow a proper credit to subscribers for lapses of service during this period of inevitable inconvenience and, also, as an incentive to the company to exert every effort to bring about speedily normal service conditions.

With reference to delayed installations and other held orders, the reports furnished by the company show that at the end of February the company held for all Los Angeles exchanges 12,200 delayed installations. In addition to these held orders, the company estimates that, from now on and during the year 1922, it will have approximately 35,000 new business orders and, also in addition, over 25,000 other orders, principally number changes.

The number of delayed orders for installation is altogether abnormal. The number of orders held normally by the company in Los Angeles at any one time, we conclude, should not exceed 4,000. As long as the number of held orders exceeds this figure the service conditions cannot be considered normal or satisfactory.

The company, upon the Commission's demand, has furnished an estimate of the number of normally held orders in each district area (the total not to exceed 4,000) and of the time required in each district to reach this normal condition.

<i>District</i>	<i>Number of Orders Held Under Normal Conditions</i>	<i>Date it is Estimated Normal Conditions can be Reached</i>	
Main-Olive.....	650	July	31, 1922
Boyle.....	235	June	30, 1922
Lincoln.....	100	June	30, 1922
Garvanza.....	130	July	15, 1922
Hollywood.....	535	November	15, 1922
Ramona.....			
Vermont.....			
Quincy.....			
Terminal.....	250	July	15, 1922
West.....			
Wilshire.....	150	April	30, 1922
Union.....			
Kingsley.....			
South.....	700	August	30, 1922
Yale.....			
Adams.....	650	July	30, 1922
Jefferson.....	250	September	30, 1922
Normandie.....	175	July	1, 1922
Occidental.....	25	Normal	
Prospect.....			
	150	September	30, 1922
Total.....	4,000		

Normal conditions in regard to present service as well as to installations should, therefore, exist in the greater part of the entire Los Angeles exchange area by the end of July of this year. A longer delay appears to be inevitable in the Wilshire-Union-Kingsley district (normal conditions estimated by the end of August), in the Adams and Prospect districts (normal conditions estimated by the end of September), and the most serious delay will be in the Hollywood territory, where the delay in installations is estimated to be cleared by November 15. The Commission hopes it will be possible to expedite this service program and that the company will be able to improve on the dates set down. At all events, the company will be held to this schedule. If conditions have not been brought to normal on the dates specified and if it should become apparent that there is no likelihood of the company living up to the program as here set down, the Commission will have to conclude that the company is either unwilling or unable to provide the service its subscribers are entitled to and a temporary or permanent reduction in the telephone rates commensurate with the

poor service conditions will promptly be given consideration.

To insure carrying out the construction program we shall make it a condition of this order that the president of The Pacific Telephone and Telegraph Company, the concern in control of the Los Angeles company, shall immediately go to Los Angeles and personally take charge of construction and operation, to the end that this Commission may know definitely where responsibility may be placed if failure should occur. It is not our purpose to suggest interference with the efficient and loyal construction and operating organization of the company in Los Angeles. There has become apparent, however, the lack of definite and final authority on matters of importance requiring immediate attention in Los Angeles, and the placing on the ground of the official having ultimate authority in the organization will undoubtedly promote expedition and efficiency in the completion of the service and construction program.

We have also insisted that the claimed superior engineering and managerial organization of the American Telephone and Telegraph Company in New York (to whom the Los Angeles company pays a certain amount for services of this nature and for which purpose an allowance was made in our prior decision* in this proceeding), be made available to the fullest extent for the special problems confronting the company in Los Angeles.

The American company, with whom rests the ultimate control and ownership of the Los Angeles and the Pacific companies, advertises itself throughout the land as a utility at all times ahead of the country's telephone requirements and as a model of corporate organization and efficiency. In Los Angeles, although forewarned, the controlling company in the past has failed to make a reasonable estimate of the city's growth and its telephone requirements, but it now seems to be aware of the extent of the

* See Commission Leaflet No. 123, p. 549.

work confronting it. Adequate funds, material and men have been provided and there is evidence that in a reasonable time good service will be re-established.

It must be remembered that we have no jurisdiction over the American company in New York. All this Commission is able to do is to regulate the amount that is to be allowed in operating expenses as payment to the parent company for service rendered, and this amount should be in direct proportion to the value of the service received.

As a result of our insistence, several special construction and service engineers from the American company, including the assistant chief engineer, are in or on their way to Los Angeles and will remain there giving their entire time to this work until the program here outlined has been completed.

The company will be ordered to make monthly progress reports to this Commission, showing fully the status of the work.

The city of Los Angeles, in its application for a rehearing, expresses the opinion

"that there is no reasonable expectation of improvement and no definite assurance of any kind whatever that any change in present conditions is contemplated by the said Southern California Telephone Company."

In view of the action outlined in this decision and of the measures either already undertaken or about to be undertaken by the company, the position of the city, as stated in the application, cannot be maintained, in our opinion.

RATE BASE, TOLL APPORTIONMENT, RATE AREAS, REVENUES AND EXPENSES.

With reference to the other matters and allegations in the city's application for rehearing, but little can be added to what has been said in our opinion in Decision No. 9864.*

The Commission's views on questions of rate base, revenues and expenses, on depreciation, toll apportionment,

* See Commission Leaflet No. 123, p. 549.

rate area, and relations with affiliated companies have been substantially set forth. All of these matters have had the most thorough and painstaking consideration of the Commission and no evidence has been introduced on rehearing and no new facts have come to the Commission's attention justifying a finding on these points different from that made in the original order.*

The city objects to the addition to the rate base of the sum of \$6,738,000, representing *additional capital investment* during the coming year. It alleges that the inclusion of this amount is unfair and unjust because there is no assurance of the amount that will be invested or of the time when such investment may be made.

The city is in error in these allegations. The new capital from outside sources, and in no sense either directly or indirectly contributed by the rate payers, amounts, as a matter of fact, not to \$6,738,000, as estimated in our original decision,* but to a substantially larger amount and in excess of \$9,000,000. The Pacific Telephone and Telegraph Company has satisfied the Commission that this money is actually available at this time and will be expended as rapidly as it can possibly be done. The construction program set out above, furthermore, definitely contemplates and fixes the expenditure of this capital within definite limits of time and we have no doubt that by far the greater portion, if not all, of the \$9,000,000 of new money will have been put into this plant within less than twelve months from the date of this order. The monthly reports the company is required to make will provide for definite assurance on this point.

The city again urges the Commission to order, or at least take into consideration for purposes of revenue estimates, a different apportionment of toll revenue between the Los Angeles company, the Pacific company, and other companies. The Los Angeles company now receives 30 per cent. of the total originating toll business going to the

* See Commission Leaflet No. 123, p. 549.

Pacific company and 20 per cent. of the same business going to the United States Long Distance Telephone and Telegraph Company. The difference between the 20 per cent. and 30 per cent. is accounted for by the fact that the United States Long Distance company furnishes its own operators, a certain amount of its own equipment, and does its own billing, causing a correspondingly lesser expense to the Los Angeles company.

In the gross revenue estimate of \$8,300,000, used by us in Decision No. 9864* under the rates fixed in that decision, and covering the revenues of the Los Angeles company for the year 1922, there is included an estimate of toll service revenue of \$410,000. This is made up of \$60,000 from the United States Long Distance company (under the 20 per cent. apportionment) and \$350,000 from the Pacific company (under the 30 per cent. apportionment). Assuming that the proportion to the Los Angeles company was increased by 10 per cent. for each of the two items, the annual gross revenue would be increased by \$41,000. Assuming a 20 per cent. increase for each item, the additional gross revenue would amount to \$82,000. It is to be noted, therefore, that with a gross revenue to be raised from rates of \$8,300,000 this matter of possible change in the total apportionment is a negligible quantity and could not possibly have an appreciable effect on the rates, amounting as it does to less than one per cent. of the total revenue if the maximum apportionment suggested by the city were made to the Los Angeles company. We have not sufficient evidence in this proceeding to warrant a finding on a more equitable distribution of toll revenue than now exists and having in mind the relative unimportance to the rate payers, in this particular case, we are compelled to maintain our position that this matter should rest until a State-wide determination can be made. It is our purpose, however, to inquire into this question without delay.

* See Commission Leaflet No. 123, p. 549.

The city urges us to make more stringent provisions than are contained in Decision No. 9864* for the supervision and regulation by this Commission of the reserve allowed to insure against *depreciation*. The Board of Public Utilities of Los Angeles (in city's Exhibit No. 2 on rehearing), supporting the city attorney's petition for rehearing, states:

" We must strongly urge that supervision and regulation be made a part of the order in Decision No. 9864,* especially as it applies to the expenditure of \$780,000 for the replacement of worn-out plant and equipment, and that the supervision and regulation of such reserve fund shall be under the joint control of the California Railroad Commission and the Board of Public Utilities. We believe this action absolutely necessary for the protection of telephone users.

As conditions are at the present time, the subscribers have absolutely no protection against the neglect on the part of the company to replace old and worn-out inadequate equipment; they have no protection against the lack of service resulting from a failure to replace inefficient equipment. In other words, the condition per cent. of the Southern California Telephone Company is an unknown quantity. We do not admit for one moment that the condition per cent. of the property has nothing to do with the service rendered by the company, or with the matter of rates.

We cannot agree that the reserve fund may be used by the company for any purpose whatever which the company may find convenient. It would seem to us that the only guarantee of good faith in the expenditure of the money set aside for a particular purpose and included in the rates for that purpose is that the Commission should have charge both of the debits and credits to the depreciation reserve fund.

We contend that the Commission should be the judge of obsolescence whenever a radical change is proposed. We do not contend that either obsolescence or inadequacy should be borne entirely by the rate payer.

The city contends that no one can prophesy the exact amount necessary for the replacement of property or keeping intact the original investment. We contend that a reasonable amount over and above the actual current replacements to take care of emergency withdrawals should be set aside annually and placed in a separate fund, together with the interest thereon, and the fund put under the supervision of the California Railroad Commission and used for the only purpose for which it was ever taken out of the rates—namely, the replacement of worn-out plant, and keeping the original investment intact. Should it become necessary at any time, in the opinion of the Commission, to increase the annual

* See Commission Leaflet No. 123, p. 549.

allowance for depreciation, or should the fund accumulate too rapidly to take care of current replacements, then the Commission can increase or reduce the annual payments. By this method there will be no tendency to neglect replacements and use the money for some other purpose."

We have made an allowance in the prior decision,* under operating expenses, for a depreciation annuity of \$780,000 per year, which amount, if set aside in monthly installments in a sinking fund, will, at an interest rate of 6 per cent., retire, in our opinion, the total depreciable property within a reasonable life expectancy. We do not agree with the company that an allowance must be made, under the guise of a reserve for depreciation, to insure the company against all risk, including such risks, for instance, as must be reckoned with through the possibility of new inventions and discoveries, changes in popular demand and losses suffered through destruction of property by extraordinary casualties. In our opinion these and other kinds of risks inherent in the inevitable uncertainties of economic conditions, cannot in justice and fairness be charged in advance to the rate payers as operating expenses but must be assumed, in part at least, by the company. It is because of the existence of such risks that an allowance is made for a fair return over and above operating expenses, including depreciation.

The depreciation allowance we have made will take care of ordinary wear and tear not covered by current repairs and will allow the property to be replaced, in order that good service may not be interrupted, at the end of the natural life of the various items of plant.

We know that in the past this company and its predecessor owners of existing plant have not at all times set aside the proper amounts required for a depreciation reserve. At times there was set aside too much and at other times too little. It is also established that at times, moneys allowed for depreciation were used for purposes other than those for which they were set aside for.

* See Commission Leaflet No. 123, p. 549.

For reasons discussed in the prior decision,* we have not insisted, in this case, upon the establishment of a separate depreciation fund, nor have we established definite rules and regulations governing the expenditure of depreciation moneys. The contention of the company that we have no jurisdiction to do this, because of the accounting classification prescribed by the Interstate Commerce Commission, has not in any sense been persuasive upon the Commission. There is clearly an essential difference between an accounting system and rules governing the setting aside and the expenditure of certain specific moneys devoted to specific purposes. It would be just as logical for the company to say that the amount of wages to be paid, or the prices of materials, or the rate of fair return, should be regulated by purely accounting considerations, as to urge that the proper purposes and expenditure of the depreciation fund should be controlled by such considerations. If, in spite of these conclusions, we did not insist upon a closer supervision and regulation of the depreciation fund in this case, it was because we know that at the present time a large portion of this property is under practical reconstruction, that very large additions and betterments are being made and that, in our opinion, under the service program set out above, Los Angeles will, within a short time, have an excellent telephone service. The powers of this Commission, we believe, are sufficient to insure the continued maintenance of adequate plant and we know that this power will be exercised. If there should be any indication to the contrary, and if it should appear to the Commission that moneys allowed by us to take care of depreciation are diverted by this company to other purposes, definite rules and regulations to govern the depreciation fund will promptly be established.

The suggestion is made by the city that two sets of rates be established by us at this time; one to take effect now and the other after it has been shown that a certain definite

* See Commission Leaflet No. 123, p. 549.

additional capital investment has been put into plant. This suggestion is made on the assumption that the Commission has established rates under which the present subscribers are compelled to pay a return on money to be expended principally for the benefit of subscribers not yet served. This is a misapprehension. The gross revenue of \$8,300,000, which it is estimated the company will secure from the rates now in effect in the year 1922, is predicated upon a revenue from 170,310 exchange revenue stations; that is to say 19,600 stations more than were in existence on March 31, 1921, the date on which the rate base figures are based. In other words, in order to secure the revenue from the number of stations estimated for 1922, the company must expend additional capital in the amount set out in the decision. If it does not expend this capital it will, automatically, not receive the estimated revenue, because it will not have the estimated number of subscribers. If a larger number of subscribers is added to the company's list of subscribers in 1922 than was estimated by us (and this it now appears will be the case), the company will have to expend a correspondingly larger amount of new capital and this, also, will be the case as established by the fact that in excess of \$9,000,000 of new capital must be expended instead of the \$6,738,000 included in the rate base of \$23,800,000.

It is our conclusion that the order in this decision will secure to the city of Los Angeles normal and adequate telephone service within the shortest possible time and that the rates heretofore fixed in this proceeding, provided the Commission's order is fully complied with in good faith by the company, are just and reasonable rates and as low, or lower, than the rates obtaining for similar classes of service in cities comparable to Los Angeles in population and telephone development. We conclude that the rates fixed should not be reduced until it has become apparent to the Commission that the company is either unwilling or unable to comply with this order.

POSITION OF THE CITY OF SOUTH PASADENA.

South Pasadena objects to what it calls the "zoning of the city for rate-making purposes" and asks that one rate for each class of service be established over the whole of the city and that the rates so fixed be made to conform to the rates fixed for similar service in the Los Angeles primary rate area. South Pasadena also asks that the company be made to live up to the terms of a certain city ordinance (No. 460, dated January 15, 1917). This ordinance contains the conditions under which consent was given to the sale, transfer and assignment by the Home Telephone and Telegraph Company to the Southern California Telephone Company* of the property and the franchise used by the former Home company in its operations in South Pasadena. The ordinance is made part of South Pasadena's application for rehearing.

The transfer of the South Pasadena franchise was one of the necessary steps to bring about consolidation in 1916-1917. In this Commission's consolidation decision, No. 3845,* heretofore referred to, there was mention of this matter (Opinions and Orders of the Railroad Commission of California, Vol. 11, page 852):

"Ordinance No. 6959 (new series), of the city of Los Angeles, being the ordinance under which the Home company exercises its franchise in the city of Los Angeles, Ordinance No. 382 of the city of South Pasadena, being the ordinance under which the Home company exercises its franchise in the city of South Pasadena, and Ordinance No. 141 of the city of Watts, being the ordinance under which the Pacific company exercises its franchise in the city of Watts, all provide substantially that the grantee of the franchise shall not assign the franchise or any right thereunder or the plant installed thereunder unless the consent of the public authority granting the franchise has first been secured. Such consent has not as yet been secured by the petitioners herein, nor has application therefor been made to the respective municipalities. As it is proposed under the plan herein presented to transfer to the Southern company the franchises granted by each of the three said ordinances, the necessary steps must of course be taken to secure the consent of the cities of Los Angeles, South Pasadena and Watts, if this plan is to be consummated."

* See Commission Leaflet No. 61, p. 74.

Among other things, Ordinance No. 460 of the city of South Pasadena requires a stipulation from the Southern California Telephone Company that during a period of five years from the date of the ordinance the company

"shall not make application to the Railroad Commission of the State of California, nor to any other public authority for any increase in telephone rates now in effect in the city of South Pasadena."

The stipulation also provided that

"Southern California Telephone Company shall promise and agree that during the remainder of said period of the life of said franchise granted by said Ordinance No. 382, Southern California Telephone Company, its successors and assigns, will furnish and render to all the subscribers for telephones operated by Southern California Telephone Company, its successors or assigns, in the city of South Pasadena, as good telephone service between the telephone subscriber stations furnished said subscribers in the city of South Pasadena and the telephone subscriber stations operated by Southern California Telephone Company, its successors or assigns, for subscribers in the city of Los Angeles, as has been furnished and rendered subsequent to May 26, 1913, and as is now furnished and rendered by Home Telephone and Telegraph Company, and with connections between said subscriber stations in the city of South Pasadena and the central exchange to be maintained by Southern California Telephone Company, its successors and assigns, in the city of Los Angeles, as direct as now maintained between the same by Home Telephone and Telegraph Company; and that Southern California Telephone Company, its successors or assigns, will not furnish, extend or render any telephone service mentioned in this paragraph, to any of its said subscribers over, upon or along any toll line."

The company, it appears, filed the stipulation accepting the conditions laid down in this ordinance. The city of South Pasadena now relies on the ordinance and on the stipulation. The city attorney in his argument (Transcript, page 261) says:

"South Pasadena, under all the circumstances, should be in the primary rate area, for there is not one word of evidence in the record here showing that we should be kept out of it for the reason of additional cost of operation, additional length of cables or for any other reason. There is absolutely no testimony in the record which warrants South Pasadena being treated differently than any other portion which is now included in the primary rate area * * * * * However, if the Commission in

its wisdom should see fit to put us outside, to keep us outside of the area, then the increase in rates we should pay above that granted the company in the primary rate area should be very small indeed, because there is no evidence, Mr. President, warranting any greater rate being charged the users in South Pasadena. Further than that, there was arbitrarily established, and it seems to me without any reason or excuse whatever, by the company six zones in South Pasadena, which was shown by the exhibits which we offered in evidence, a quarter of a mile wide, the first one next to the boundary line of Los Angeles, and the sixth zone in the northeast section of the city of South Pasadena, each zone a quarter of a mile wide, and the one-party business rate in the first zone being \$9.00 and in the sixth zone \$12.00, while that territory is served by the sub-station which is in the center of the city. And we think that establishment then is without any legal or business justification. If we were to be put in a zone by ourselves it should be one zone and not six zones arbitrarily established because we happen to be adjacent to the primary zone."

Under the provisions of the Public Utilities Act, this Commission is bound to establish fair and non-discriminatory rates and it cannot be controlled or limited in the exercise of that duty by franchise conditions, stipulations, or agreements of any kind, if such contracts run counter to the superior non-discriminatory principle established by law. We have, in a number of decisions, discussed the theory and application of this principle; it has been passed upon by the Supreme Court of this State and by the Supreme Court of the United States, and the ordinance of South Pasadena here referred to, and the stipulation filed by the company cannot, therefore, be controlling upon this Commission. We have no thought, of course, to set aside or interfere with contracts of this nature unless such agreements are against the sound public policy indicated above. In this instance the stipulation agreeing not to make application for increased rates for a period of five years was similar to a like agreement this company had made with the city of Los Angeles. The Los Angeles agreement was considered as reasonable by the Commission and a similar provision was incorporated in its order in the consolidation proceeding. When the company made application for increased rates on November 9, 1920, it is true,

a literal compliance with this agreement was not insisted upon. With the consent of the Los Angeles city authorities it was agreed that a hearing of the application might be undertaken without unfairness to the telephone users, since necessarily a considerable period of time, and probably not less than a year, must elapse before a proceeding of such magnitude could be concluded. As a matter of fact, the new rates did not go into effect in Los Angeles until January 1 of this year, almost two months after the lapse of the five-year period.

We are of the opinion that after the company voluntarily entered into its stipulation with the city of South Pasadena covering the five-year period it will be willing to live up to the terms of that stipulation with exactly the same degree of good faith that it did in the case of the city of Los Angeles. Counsel for the company admits that the question of waiving the five-year time limit was never taken up with South Pasadena as it was taken up with Los Angeles, and says (Transcript, page 277):

"Now, Mr. Hazlett, coming finally to your point, I will say that you are quite right, it was not taken up with the city of South Pasadena, which is the first time I have touched the subject you were just referring to."

No question of general public policy is involved in this matter of the five-year stipulation and we believe that South Pasadena was entitled to enjoy, as did Los Angeles, a full five years of the old rates subsequent to January 15, 1917, the date of the voluntary agreement between South Pasadena and the company. The order will provide, therefore, for a refund to South Pasadena subscribers of the amount in question for the first half of the month of January, 1922.

An entirely different situation confronts us in the question whether South Pasadena should be included in the Los Angeles primary rate area because the ordinance stipulation cited above is construed by the city authorities as contemplating such inclusion. This question goes to the

broad public policy of discrimination versus non-discrimination. If the primary rate area boundaries, as drawn in the previous decision * in this case, are just and fair boundaries, they certainly should not now be changed by this Commission because of the existence of a city ordinance or a stipulation.

We have given very careful consideration to the testimony introduced in this matter at the rehearing. There is no justification, in our opinion, for the inclusion of the city of South Pasadena within the Los Angeles primary rate area. If quarter-mile circles are drawn on the primary rate area map, taking the intersection of 6th Street and Broadway as the center of the Los Angeles downtown section, the primary rate area boundary in the South Pasadena district is seen to be from $5\frac{1}{2}$ miles to 7 miles from the center. This is a distance much greater than the average distance from the center, which ranges from 3 miles in an easterly and southly direction to over 7 miles in a westerly direction in the Hollywood section, where the maximum distance from the center occurs at about $7\frac{3}{4}$ miles. In only a few places does the primary rate area extend as far from the center of the city as it does in the direction of South Pasadena, and in no sense can it be said that South Pasadena is discriminated against.

There is merit, however, in the contention of the city that the quarter-mile zoning, resulting in six different rates for the comparatively small territory occupied by this community, is an inconvenient and objectionable system and results in apparent discrimination between different telephone users receiving the same class of service within this community. The quarter-mile differential is established in order to spread equitably, as nearly as may be, the cost of giving telephone service outside the primary rate area in sparsely settled territory where the company is obliged to make extensions to new subscribers desiring access to the primary rate area without the payment of toll charges.

* See Commission Leaflet No. 123, p. 549.

The farther such new lines extend from the primary rate area boundary, the greater, as a rule, is the investment and the cost of service. This state of facts does not obtain, however, when immediately adjoining the primary rate boundary a compactly settled community is in, or comes into, existence and a telephone development as dense as in the primary rate area has become a reality. Where such a condition is found, it is obviously altogether different from the sparsely settled, scattered suburban development that is going on, as a rule, in the neighborhood of all large cities. The question in such a case must be whether the settled community shall be included in the adjoining or existing primary rate area, whether a new and independent primary rate area with local exchange rates shall be established or whether, pending either of these two developments, the community shall be joined to, though not included with, the existing primary rate area, at uniformly higher rates, depending on the class of service, and calculated to reimburse the company for the greater cost of service.

In the case of South Pasadena we believe that at this time the community should be given the option of either of the last two alternatives. The evidence indicates a preference for inclusion within Los Angeles area and opposition to a separate exchange area with local rates and toll charges for Los Angeles communications. The wishes of a community of subscribers as to the kind of service they prefer should be controlling, provided discrimination against other subscribers does not result and, further provided, that the rates fixed represent a fair proportion of the cost of service. We believe these wishes can be best met, with entire fairness to all subscribers and the company, by providing a choice of local South Pasadena exchange service (at lower rates) with toll rates to Los Angeles, and of exchange service giving access to the entire Los Angeles primary rate area (at higher rates and without the payment of Los Angeles toll charges). The subscriber whose interests are primarily within the smaller exchange area will prefer the

former class of service and should not be forced to pay for larger facilities, when he has no use for them.

There is nothing in the record to show to what extent the cost of service to South Pasadena subscribers who wish to avail themselves of exchange service within the Los Angeles primary rate area is greater than the cost to subscribers located in different parts of Los Angeles. With this condition in mind we propose to fix uniform charges, for the larger service, at rates somewhat higher than obtaining in the Los Angeles area. The rates fixed are higher by, approximately, the mean between the rates applicable within the Los Angeles primary rate area and the rates applicable in the so-called Zone 6 of South Pasadena. The computation is made from the business center of South Pasadena, a location about three-quarters of a mile from the nearest point on the Los Angeles primary rate area boundary. It will only be necessary to fix rates for individual and two-party lines for both business and residence service and for four-party line residence service, and all other rates and charges will apply in South Pasadena the same as in the Los Angeles primary rate area and as fixed in Decision No. 9864.*

A separate rate schedule will be ordered for the South Pasadena local exchange service. This local service will be rendered in a primary rate area identical with the territory within the corporate limits of the city of South Pasadena.

PETITION OF ATWATER PARK.

There was filed with the Commission by the city attorney of Los Angeles a petition of telephone subscribers in the so-called Atwater section within the corporate limits of the city of Los Angeles who, prior to the first decision* in this case, were in the primary rate area of Los Angeles. It is now proposed by the company to include this territory

* See Commission Leaflet No. 123, p. 549.

in the Glendale primary rate area, with the result that toll charges will accrue for Los Angeles service.

The petitioners' business and social intercourse, it appears, is with the city of Los Angeles, of which they are residents, and they have no interests in the city of Glendale. An inspection of the rate area map shows that a break is made in the rate area boundary, excluding this particular small section. From the standpoint of economy and efficiency as far as the company is concerned, the development in this territory can better be served from the Glendale exchange instead of from one of the Los Angeles offices. It appears that the company, on its own accord, in the month of January, in this territory, has continued the Los Angeles service at the Los Angeles rates and that it was proposed to take up the situation with each individual subscriber, with a view of ascertaining the subscriber's views. This small group of subscribers, it is apparent, is practically unanimous in its desire to be included within the Los Angeles area. We conclude that this small section should be taken into the Los Angeles primary rate area and that the boundary should be adjusted as prescribed in the order. This adjustment appears the more reasonable since the extreme point of the revised boundary in this section will be within the five-mile limit from the center at 6th Street and Broadway.

After giving full consideration to all the matters presented on rehearing and after carefully reviewing our original decision* in this proceeding, we conclude that the following order shall be made:

ORDER ON REHEARING.

Application for rehearing having been filed by the city of Los Angeles and by the city of South Pasadena, parties to the above-entitled proceeding, and said applications having been granted, a rehearing having been held, and the Commission basing its conclusions on the foregoing

* See Commission Leaflet No. 123, p. 549.

opinion, as well as on the opinion and order set out in Decision No. 9864* heretofore made in this proceeding, and on the entire record in these applications,

It is hereby ordered, That the rates and classes of service heretofore ordered in this proceeding in Decision No. 9864* shall remain in full force and effect, subject to the following conditions and modifications:

A—IN THE MATTER OF SERVICE.

(a) *Credit Allowance for Lapse of Service:*

The company shall immediately make arrangements to provide for automatic credit allowance to subscribers in all cases of lapse of service, such credit allowance to be governed by the following rules:

RULES GOVERNING CREDIT ALLOWANCE TO BE MADE BY SOUTHERN CALIFORNIA TELEPHONE COMPANY TO SUBSCRIBERS IN CONNECTION WITH SERVICE INTERRUPTIONS FOR PERIOD OF TWENTY-FOUR HOURS AND OVER (PRESCRIBED BY CALIFORNIA RAILROAD COMMISSION IN ORDER NO. 10142, DATED MARCH 4, 1922, EFFECTIVE MARCH 4, 1922).

(1) The company will allow subscribers credit, on the basis prescribed in the following paragraph, in all cases where telephones are out of service for a period of twenty-four hours or more from the time the fact is reported by the subscriber or detected by the company.

(2) Credit will be allowed on the following basis:

<i>Period Out of Service</i>	<i>Credit Due Subscriber</i>
One to three days, inclusive	One-thirtieth of monthly exchange service bill for each separate day
After the third day, from fourth to seventh day, inclusive	One-twentieth of monthly exchange service bill for each separate day
After seven days, and from eighth to fourteenth day, inclusive	One-tenth of monthly exchange service bill for each separate day.

When credit due subscriber, under this rule, is equal to total amount of monthly bill, no further allowance shall be made for any one calendar month. If lapse of service continues during more than one calendar

* See Commission Leaflet No. 123, p. 549.

month, the computation of credits shall begin anew for each separate calendar month, provided, however, that for a lapse of service continuing over fourteen full consecutive days (even when extending from one month into a second month), credit shall be allowed equal to a full month's bill.

Out of service will be taken to exist in all cases where the subscriber is unable to call out.

(3) The out of service credit allowance shall appear on the first monthly bill rendered all subscribers following the out of service period, provided the trouble is reported by the subscriber or detected by the company and cleared on or before the twenty-fifth of the month.

(4) The out of service credit allowance covering the out of service period in cases reported by the subscriber or detected by the company, from the twenty-sixth to and including the last day of the month, cannot be determined in time to be included on the following month's bills and shall appear on the first bill rendered the subscriber thereafter.

(5) Nothing contained in these rules shall be deemed to supersede or abrogate any rules and regulations pertaining to telephone service and rates heretofore issued by the California Railroad Commission, and the company is free under these rules to make adjustments as may seem just and reasonable in each case for interruptions of service of duration less than twenty-four hours and under conditions not covered in these rules.

The foregoing rules, duly signed by the president of the company, shall be printed and distributed by the company with the next month's bill to all of its subscribers, and the company shall further publish these rules in the Los Angeles daily press and shall furnish a copy of the rules to each new subscriber.

Monthly reports shall be made by the company to this Commission of the amount of credits made for each preceding month. Credit allowances made under these rules shall not be charged to operating expenses and a separate sub-account shall be established by the company under the prescribed classification of accounts.

(b) Delayed Installations and Other Held Orders:

The company shall make every effort to bring to normal proportions, at the earliest possible moment, the abnormally large number of delayed orders held for installation and all other held orders and shall, to this end, carry out and complete the program heretofore set out in the

foregoing opinion, and it shall be understood that the dates of completion for the work in the various district areas shall be considered as the measure of the maximum period for the completion of such work and, further, that normal conditions shall be attained for the whole of the Los Angeles primary rate area not later than November 15 of this year, and, further, that normal conditions shall not be deemed to exist unless the total number of held orders within the entire Los Angeles primary rate area is 4,000 or less. It shall further be understood that, unless normal service conditions, as defined above, shall be brought about within the time and in the manner specified in this order, it shall be deemed established that the company is either unwilling or unable to render adequate and normal telephone service and the Commission will promptly proceed, on its own initiative, with a reconsideration of the rates fixed in this decision.

The company shall file with the Commission, in such form as will be prescribed, monthly reports showing compliance with this order and progress of work.

(c) Service in General:

It is further ordered, That, for the purpose of supervision, and in order to have on the ground the responsible head of the controlling organization, the president of The Pacific Telephone and Telegraph Company, George E. MacFarland, shall go to Los Angeles and take personal charge of the matters dealt with in this opinion and order and shall remain in such charge until further order of the Commission.

B—IN THE MATTER OF LOS ANGELES PRIMARY RATE AREA.

It is hereby ordered, That the boundary of the Los Angeles primary rate area, as heretofore outlined in this proceeding, shall be modified as follows:

Beginning at a point where the present primary rate area boundary leaves the Los Angeles city boundary in the vicinity of Forest Lawn Cemetery south of Tropico, the revised boundary line shall follow the Los

Angeles city boundary in a westerly and northwesterly direction to Los Felix Boulevard, thence along said Boulevard in a westerly and southerly direction to the Los Angeles River; thence in a southerly and easterly direction along the east bank of said Los Angeles River to a connection with the present primary rate area boundary.

C—IN THE MATTER OF THE APPLICATION OF SOUTH PASADENA.

It is hereby ordered:

(a) That the company shall refund to its South Pasadena subscribers, for the first half of January, 1922, the difference between the rates collected for that period and the rates that would have been collected for the same period if the rates effective prior to January 1, 1922, had remained in full force and effect.

(b) That the company shall file with the Commission within fifteen days of the date of this order, and make effective not later than April 1, 1922, schedules of rates to apply uniformly within the municipal limits of the city of South Pasadena, establishing the following classes of services; and provided that subscribers and applicants for service shall be given the choice and option of either one of two schedules of rates and shall be entitled to the service for which the particular rate schedule selected shall provide. The schedules of rates herein provided for and the service to which subscribers and applicants for service shall be entitled thereunder, shall be as follows:

SCHEDULE NO. 1—UNLIMITED LOCAL SERVICE WITHIN CITY OF SOUTH PASADENA.

<i>Class of Service</i>	<i>Rates Per Month</i>	
	<i>Wall Set</i>	<i>Desk Set</i>
<i>Business:</i>		
One-party, individual line.....	\$4 00	\$4 25
Two-party line	3 50	3 75
<i>Residence:</i>		
One-party, individual line.....	2 75	3 00
Two-party line	2 25	2 50
Four-party line	2 00	2 25

Subscribers electing to take service under Schedule No. 1 above shall be entitled to unlimited service with all other

subscribers located within the city of South Pasadena, inclusive of those electing to take service under Schedule No. 2 hereinafter appearing. For all calls to and from all stations other than those located within the city of South Pasadena, subscribers electing to take service under Schedule No. 1 shall pay the authorized toll rates applicable thereto, as hereinafter provided.

SCHEDULE NO. 2—UNLIMITED LOS ANGELES EXCHANGE SERVICE.

<i>Class of Service</i>	<i>Rates Per Month</i>	
<i>Business:</i>	<i>Wall Set</i>	<i>Desk Set</i>
One-party, individual line.....	\$10 50	\$10 75
Two-party line	8 00	8 25
<i>Residence:</i>		
One-party, individual line.....	5 25	5 50
Two-party line	4 00	4 25
Four-party line	3 25	3 50

Subscribers electing to take service under Schedule No. 2 above shall be entitled to unlimited service with all other subscribers located within the city of South Pasadena, inclusive of those electing to take service under Schedule No. 1 above and with subscribers of the Los Angeles exchange. For all calls to and from all stations other than those located within the city of South Pasadena and those served directly from the Los Angeles exchange, subscribers electing to take service under Schedule No. 2 shall pay the authorized toll rates applicable thereto as hereinafter provided.

LONG DISTANCE TELEPHONE TOLL AND TELEGRAPH RATES.

Except that subscribers receiving service under Schedule No. 2 above shall be entitled to unlimited Los Angeles service without the payment of toll charges, the rates for long distance telephone toll and telegraph service for subscribers located within the city of South Pasadena shall be computed as South Pasadena rates in accordance with the authorized standard toll and telegraph schedules of Southern California Telephone Company, The Pacific

Telephone and Telegraph Company and United States Long Distance Telephone and Telegraph Company.

For the purpose of establishing the service provided for in Schedule No. 1 above, the company shall at once proceed with the construction and installation of such plant and equipment, if any, in addition to that now available, as may be necessary to render such service.

It is further ordered, That in all matters other than those dealt with in this order, the order* of the Commission herein made on the fourteenth day of December, 1921, shall be and remain in full force and effect.

The Commission reserves the right to make such further orders in this proceeding relating to service and rates as may appear just and reasonable.

The foregoing opinion and order is hereby approved and ordered filed as the opinion and order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this fourth day of March, 1922.

In re APPLICATION OF THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY AUTHORIZING IT TO EXERCISE THE RIGHTS AND PRIVILEGES CONFERRED UNDER A FRANCHISE GRANTED BY THE BOARD OF TRUSTEES OF THE CITY OF VACAVILLE.

Application No. 7509 — Decision No. 10146.

Decided March 6, 1922.

Certificate of Convenience and Necessity Granted.

OPINION.

In this proceeding, The Pacific Telephone and Telegraph Company is seeking an order of the Railroad Commission declaring that the public convenience and necessity require the exercise by it of the rights and privileges conferred

* See Commission Leaflet No. 123, p. 549.

upon it under the franchise granted it by the board of trustees of the city of Vacaville by Ordinance No. 217 on the first day of November, 1921, entitled

"An ordinance, granting to The Pacific Telephone and Telegraph Company, its successors and assigns, the right to place, erect and maintain poles, wires and other appliances and conductors and to lay underground conductors for wires for the transmission of electricity for telephone and telegraph purposes, in, upon and under the streets, alleys, avenues, thoroughfares and public highways, in the city of Vacaville, State of California, and to exercise the privilege of operating telephone and telegraph instruments and of doing a telephone and telegraph business within the said city of Vacaville."

A public hearing was held on this application in San Francisco, on February 9, 1922.

The ordinance herein referred to, a copy of which is attached to this application as Exhibit B, grants a renewal of a right already in existence for a term of twenty-five years from and after the date of the passage of the ordinance granting the franchise. It provides, among other things, for the payment by the grantee, its successors and assigns, of 2 per cent. of the gross annual receipts arising out of its use; for the use by the city of certain specified facilities for police and fire alarm purposes, such use to be without charge by the grantee to the city; and contains the usual provisions with reference to the public powers of the city, having to do with the placing of poles, conduits, etc.

The application sets forth that the consideration given for the grant of the franchise is the sum of \$100. Applicant has stated that the consideration covers the entire cost of the franchise, except that the franchise itself provides for the payment of 2 per cent. of the gross receipts as hereinabove set forth.

Applicant further states that there are no other public utilities operating in said city with which it is likely to compete.

The following order is suggested:

ORDER.

The Pacific Telephone and Telegraph Company having applied to the Railroad Commission for a certificate of public convenience and necessity authorizing it to exercise the rights and privileges granted it under Ordinance No. 217 by the city of Vacaville on November 1, 1921; a hearing having been held, and it appearing to the Railroad Commission that public convenience and necessity require the construction and operation of the telephone plant and system therein provided for and that there are no other public utilities of like character at present operating within the territory involved in this proceeding;

The Railroad Commission of the State of California hereby declares, That public convenience and necessity require, and will require, the exercise by The Pacific Telephone and Telegraph Company of the rights and privileges conferred upon it by the ordinance herein before described; *provided* that neither the applicant herein, its successors or assigns, shall ever claim before this Commission or any other public body a value for said franchise for rate fixing or other purposes in excess of \$100, the amount actually paid to the city of Vacaville as consideration for the granting of such franchise, as set forth in the opinion preceding this order.

The foregoing opinion and order are hereby approved and ordered filed as the opinion and order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this sixth day of March, 1922.*

* On the same day an order carrying similar provisions throughout was issued, *In re The Pacific Telephone and Telegraph Company* (No. 7510), authorizing the operation of a telephone and telegraph system in the city of Visalia.

ILLINOIS.

Commerce Commission.

In re PROPOSED INCREASE IN RATES OF THE PERRY TELEPHONE COMPANY.

Case No. 11510.

Decided January 23, 1922.

**Higher Rates to Non-Stockholders Than to Stockholders Held Illegal —
Increase in Rates Authorized —Amount Ordered Set Aside Annually for Reserve for Depreciation.**

OPINION AND ORDER.

On March 1, 1921, the Perry Telephone Company filed with the Commission Rate Schedule I. P. U. C. 1, in which it is proposed to increase the rates for telephone service furnished in the rural territory adjacent to the village of Perry, county of Pike. It appearing that the Commission should enter upon an investigation of the proposed rates, an order was entered on March 22, 1921, suspending them until July 30, 1921, and they were subsequently resuspended to January 27, 1922, pending an investigation. The present and proposed rates are as follows:

	<i>Annual Rates</i>	
	<i>Present</i>	<i>Proposed</i>
Rural telephone service.....	\$3 00	.....
Rural and urban telephone service.....	.....	\$12 00
Renting of service to non-shareholders.....	3 00	12 00
Toll service over own system.....	10	10
Toll service through the Pike County central.....	10	10

NOTE: Proposed rates. Rental rates are payable semi-annually and bills are due January 1 and July 1. If bills are not paid within fifteen days after same are due, a penalty of 10 per cent. is added.

All interested parties having been notified, the matter came on for hearing before the Commission on April 19,

1921, and January 18, 1922. At the hearing on April 19, 1921, the Perry Telephone Company was represented by *E. J. Liehr*, president, and *J. C. Baker*, secretary, and at the hearing on January 18, 1922, the company was represented by *J. C. Baker*, secretary. *E. D. Glandon*, president, Pike County Telephone Company, appeared representing the interests of the Pike County Telephone Company, but no one objected to the increased rates. The Perry Telephone Company submitted as evidence a statement of the property owned by the company, and a statement of the receipts and expenditures for the year 1920. The company also submitted proof of publication of notice of intention to apply for authority to increase rates. The engineering section of the Commission submitted a detailed inventory and appraisal of the physical property of the Perry Telephone Company, statement of operating revenues and expenses for the year 1921, and statement showing estimated annual operating expenses of the Perry Telephone Company for the year 1922. The files in Cases Nos. 4085* and 10980 were also made a part of the record herein.

The Perry Telephone Company furnished rural party line service to approximately 140 subscribers, 66 of which are stockholders of the company. The company owns a magneto switchboard located in the village of Perry, and service is furnished over grounded party lines. The inventory and appraisal as submitted by the Commission shows a reproduction cost new of the physical property as of December 15, 1921, of \$6,477, and a depreciated cost of \$5,781. The appraisal was prepared by using the actual cost of the switchboard, and by applying prices based upon average normal costs of labor and material for the five-year period, 1912 to 1916, inclusive, to the remainder of the property. The Perry Telephone Company owns the switchboard and distribution lines but does not own the subscribers' stations.

* See Commission Leaflet No. 50, p. 602.

A public utility is required to replace the various units of its property as they reach the end of their useful period. The cost of such replacement is not a direct charge to operation but to the depreciation account. Funds for this purpose are properly obtained by setting aside from earnings a sufficient sum each year to maintain the integrity of the investment. This annual contribution constitutes the depreciation reserve. From a consideration of the record herein it appears that an annual amount of \$400 should be set aside from the earnings of the company in order to provide against accruing depreciation.

The annual operating expenses as submitted by the Perry Telephone Company for the year 1920, are \$967.32. The expenses for the year 1921 as obtained by the engineering staff from the books of the company, including taxes, but not including an allowance as a reserve against depreciation, are \$1,841.15. The record indicates, however, that during the past year it has been necessary to practically rebuild the distribution system, and the cost of such rebuilding is improperly reflected in the operating expenses as kept by the company for the year 1921. An estimate of annual operating expenses for the year 1922 as submitted by the engineering staff of the Commission, including taxes, is \$942.41. From the evidence of record the estimate of operating expenses made by the engineering staff appears to be reasonable.

The operating revenue, including toll revenue, for the year 1921, according to the evidence submitted by the engineering staff of the Commission, is \$505.25. This amount has not been sufficient to meet the necessary operating expenses, and in order to conduct the business the record shows that the Perry Telephone Company levied and collected assessments against its stockholders.

At the hearing on January 18, 1922, the Perry Telephone Company asked that the proposed Rate Schedule I. P. U. C. 1, be modified to provide a rate of \$12.00 per annum for non-stockholders, and \$9.00 per annum for stockholders.

This is covered by Conference Ruling No. 8* of the Commission which reads in part as follows:

"This Commission holds that it is unlawful to exact a higher rate from subscribers who are not stockholders, directors and officers, than from subscribers who are stockholders, directors and officers; that the subscriber who is a stockholder has no rights or privileges which are denied to a subscriber who is not a stockholder, and the stockholder must look to the profits of the business for his return on his investment."

The Commission is therefore of the opinion that the modification of the proposed rate which provides a rate of \$9.00 per annum for stockholders and \$12.00 per annum for non-stockholders should be denied.

From the record it appears that the Perry Telephone Company is entitled to increased rates for the telephone service furnished. Furthermore, the request of the company for a rate of \$9.00 per annum for stockholders and \$12.00 per annum for non-stockholders indicates that the company considers that a lower rate than is stated in its proposed Schedule I. P. U. C. 1, as filed March 1, 1921, would be sufficient in order to allow the company to furnish telephone service to its subscribers.

From a study of the record and from consideration of the proposal of the Perry Telephone Company to furnish service to its stockholders at a rate of \$9.00 per annum, the Commission is of the opinion, and finds, that the Perry Telephone Company will be enabled to maintain its plant and to furnish telephone service to its subscribers at a rate of \$10.00 per annum, payable semi-annually, and subject to a penalty of 10 per cent. for failure of the subscriber to pay the rental within fifteen days' time after same becomes due. This rate will result in an annual operating revenue of approximately \$1,485, which indicates a net annual income of \$143, thus resulting in a return of 2.5 per cent. upon a tentative rate base of \$6,000.

In Rate Schedule I. P. U. C. 1, the Perry Telephone Company asked that the Commission grant the company the right to serve its stockholders, in good standing,

* See Commission Leaflet No. 31, p. 31.

regardless of their residence, urban or interurban. This action is asked, due to the fact that some of the stockholders of the Perry Telephone Company have moved from the country to the village of Perry, and now desire service at the exchange of the Perry Telephone Company. However, in Cases Nos. 4085,* and 10980, the Commission has held that the furnishing of telephone service within the corporate limits of the village of Perry by the Perry Telephone Company would constitute an invasion of the territory of the Pike County Telephone Company, and the record herein does not contain sufficient evidence to warrant the Commission in changing its previous findings. The request of the Perry Telephone Company for permission to furnish telephone service to its stockholders who live within the village limits of Perry should therefore be denied.

Having given due consideration to the evidence of record in this cause, the Commission is of the opinion, and finds:

1. That a reasonable annual allowance as an item of operating expense to meet the depreciation now occurring in the physical property of the Perry Telephone Company is \$400, plus 6 per cent. of all additions and betterments to be made to the plant subsequent to December 15, 1921.

2. That the reasonable estimated annual operating expenses of the Perry Telephone Company for the ensuing year, including an allowance of \$400 as a reserve for depreciation, are \$1,342.

3. That the present schedule of rates on file with the Commission results in an annual operating revenue of approximately \$505, thus resulting in a net annual deficit of \$847.

4. That the modified schedule of rates hereinafter authorized is just and reasonable and will produce an annual revenue of approximately \$1,485, thus resulting in a net annual income of approximately 2.5 per cent. on a tentative rate base of \$6,000.

* See Commission Leaflet No. 50, p. 602.

5. That inasmuch as the Perry Telephone Company is not organized for profit the modified schedule of rates is just and reasonable and should be authorized.

It is, therefore, ordered by the Illinois Commerce Commission as follows:

Section 1. That Rate Schedule I. P. U. C. 1, of the Perry Telephone Company covering telephone service in the rural territory adjacent to the village of Perry, county of Pike, be, and the same is hereby, permanently suspended, cancelled and annulled.

Section 2. That the Perry Telephone Company be, and the same is hereby, permitted and authorized to file the following schedule of rates to be designated as I. P. U. C. 2, covering telephone service in the rural territory adjacent to the village of Perry, county of Pike, effective January 1, 1922, *provided* the said schedule of rates is filed within twenty days of the date of service of this order; or effective at any subsequent date, *provided* the said schedule of rates is filed with the Commission not less than ten days prior to the effective date of the schedule; and the said schedule of rates, when filed with the Commission as specified herein, and posted or filed in the office of the public utility, all as required by the Public Utilities Act of Illinois and General Order No. 28,* as amended, adopted by the Commission, shall be the legal rates covering telephone service in the rural territory adjacent to the village of Perry, county of Pike. The schedule of rates authorized herein, together with the rules, shall be stated in words and figures as follows:

Rural party line service, both stockholders and non-stockholders, per annum.....	\$10 00
Toll service to non-subscribers, per message.....	10
Toll service through Pike County Telephone Company's central, per message	10

NOTE: Rental rates are payable semi-annually, and bills are due January 1 and July 1. If bills are not paid within fifteen days after same are due, a penalty of 10 per cent. is added.

* See Commission Leaflet No. 104, p. 962.

Section 3. That the Perry Telephone Company set aside an annual amount of \$400 to provide a reasonable reserve against depreciation, plus 6 per cent. of all annual additions that may be made to the plant of the Perry Telephone Company after December 15, 1921.

Section 4. That all items of expense having to do with the upkeep of the plant shall be treated strictly in accordance with the Uniform System of Accounts for Telephone Companies now in effect by this Commission, particular attention being given to the proper proportionment between maintenance expense and expense due to depreciation of plant and equipment.

Section 5. That the application of the Perry Telephone Company for permission to connect and furnish service to subscribers within the village limits of Perry, be, and the same is hereby, denied.

By order of the Commission, at Springfield, Illinois, this twenty-third day of January, 1922.

In re PROPOSED INCREASES IN RATES OF THE ILLINOIS TELEPHONE COMPANY.

Case No. 11734.

Decided February 8, 1922.

Valuation Determined—Increase in Rates Authorized—Amount Ordered Set Aside Annually for Reserve for Depreciation.

Application was filed for authority to increase rates for service in the cities and villages of Alexander, Jacksonville, Literberry, Murrayville, Woodson, Carrollton, Greenfield, Hillview, Patterson, Roodhouse, Whitehall, Wrights and Manchester. An order was issued suspending the proposed rates pending a complete investigation.

On July 28, 1921,* the Commission authorized the purchase by the Illinois Telephone Company of the property owned by the Illinois Bell Telephone Company located in certain of the villages and cities named above, and provided in said order that the local rates and charges then in effect in the operation of the Illinois Telephone Company's system should apply to all subscribers connected to the exchanges so transferred, which transfer was consummated August 19, 1921.

* See Commission Leaflet No. 118, p. 742.

The company submitted appraisals based on average unit costs for the period 1915 to 1919, inclusive, which showed the reproduction cost new, including development cost and working capital, to be \$1,420,518, and the depreciated cost to be \$1,116,377. The appraisal submitted by the engineering staff of the Commission showed the original cost of the combined plant, including materials and supplies, but excluding non-useful property, to be \$860,679. The report submitted by the staff also showed the depreciation reserve on July 1, 1921, to be \$216,870, which reserve the Commission found was not held in cash or securities but had been reinvested in plant and equipment.

The company estimated that the sum of \$87,454 should be set aside annually from earnings in order to meet accruing depreciation, and the Commission's engineering staff estimated that the amount to be set aside should be at least \$54,393.

The Commission found that the original cost of the property of petitioner as it existed on March 1, 1921, including materials and supplies but exclusive of working capital, was \$860,679; that the reproduction cost new of the useful physical property as of said date, based upon the average prices which prevailed during the period 1915 to 1919, inclusive, was \$1,146,017; that the property was in 70 per cent. condition, and that the reproduction cost new, less depreciation, was \$802,212; that the fair value of the property, including all elements of value both tangible and intangible, as of March 1, 1921, was \$970,000; that after deducting the reserve for depreciation found to be invested in plant and equipment, the amount on which applicant was entitled to earn a fair return was \$753,130; that the annual operating revenue under the present rates amounted to \$158,391; that the annual operating expenses for the ensuing year, exclusive of taxes, uncollectable accounts, rent deductions and consolidation expenses, but including an allowance of \$46,572 as a reserve for depreciation, would amount to \$160,557, to which sum should be added \$9,657 for taxes, \$482 for uncollectable accounts, \$1,529 for rent deductions, and \$4,350 for consolidation expenses; that the present rates under prevailing conditions would result in an annual deficit of \$18,184; that the rates as requested by applicant were excessive, and that the rates as herein authorized would yield an amount available for interest and return in approximately the sum of \$41,066, which represented approximately 5.45 per cent. of \$753,130.*

Held: That applicant should be authorized to place in effect the schedules of rates for each exchange as set forth at length in the order herein entered;

That applicant should be directed to set aside monthly, to provide for accruing depreciation upon its physical property, the following sums: (a) for the combined property in service on October 1, 1921, \$3,881; (b) for all additions placed in service subsequent to October 1, 1921, 5.45 per cent. annually of the actual cost of such additions.

* So appears in original.

OPINION AND ORDER.

On June 16, 1921, the Illinois Telephone Company filed Rate Schedules I. P. U. C. 1, in which it was proposed to increase rates for telephone service in the cities and villages of Alexander, Jacksonville, Literberry, Murrayville and Woodson, county of Morgan, Carrollton, Greenfield, Hillview, Patterson, Roodhouse, Whitehall and Wrights, county of Greene, and Manchester, county of Scott, and vicinities. It appearing that the Commission should enter upon a hearing as to the reasonableness of the proposed increased rates, an order was issued on June 23, 1921, suspending the said rates until November 14, 1921, and subsequently they were resuspended pending a complete investigation.

On July 28, 1921, in Docket Case No. 11699,* the Commission authorized the purchase by the Illinois Telephone Company, and sale by the Illinois Bell Telephone Company, of the telephone property owned by the Illinois Bell Telephone Company and located in the cities and villages of Alexander, Carrollton, Jacksonville, Literberry, Roodhouse and Whitehall, and vicinities, and provided that the local rates, toll rates, toll contracts and charges for toll service then in effect in the operation of the telephone system of the Illinois Telephone Company should apply to all subscribers connected to the exchanges so transferred, from and after the date of the transfer of the property. The record shows that the transfer of the property was consummated on August 19, 1921.

The rates in effect by the Illinois Bell Telephone Company prior to the date of the consolidation and the rates now on file for the Illinois Telephone Company for the principal classes of service furnished in the various exchanges, which rates by virtue of the Commission's order* of July 28, 1921, are now in effect in the combined property, and also the proposed rates as stated in Rate Schedules I. P. U. C. 1, are as follows:

* See Commission Leaflet No. 118, p. 742.

	Annual Rates		
	<i>Illinois Bell Telephone Company Prior to Consolidation Net Rates</i>	<i>Illinois Telephone Company Present Net Rates</i>	<i>Illinois Telephone Company Proposed Gross Rates</i>
<i>Alexander Exchanges:</i>			
Individual line, business.....	\$36 00	\$18 00	\$39 00
Rural line, business.....	27 00	18 00	30 00
Business extension.....	15 00	9 00	15 00
Individual line, residence.....	21 00	18 00	24 00
Four-party line, residence.....	18 00	18 00	21 00
Residence extension.....	7 20	9 00	9 00
Rural line, residence.....	21 00	18 00	24 00
<i>Carrollton Exchange:</i>			
Individual line, business.....	24 00	24 00	42 00
Two-party line, business.....	18 00	24 00	39 00
Business extension.....	12 00	12 00	15 00
Individual line, residence.....	18 00	12 00	33 00
Two-party line, residence.....	12 00	12 00	27 00
Four-party line, residence.....	.....	12 00	24 00
Residence extension.....	6 00	6 00	9 00
Rural line, business.....	.....	12 00	27 00
Rural line, residence.....	.....	12 00	24 00
<i>Greenfield Exchange:</i>			
Individual line, business.....	.....	24 00	39 00
Two-party line, business.....	.....	24 00	36 00
Business extension.....	.....	12 00	15 00
Individual line, residence.....	.....	12 00	30 00
Two-party line, residence.....	.....	12 00	24 00
Four-party line, residence.....	.....	12 00	21 00
Residence extension.....	.....	6 00	9 00
Rural line, business.....	.....	12 00	27 00
Rural line, residence.....	.....	12 00	24 00
<i>Hillview, Patterson and Wright Exchanges:</i>			
Individual line, business.....	.....	12 00	27 00
Two-party line, business.....	.....	12 00	24 00
Business extension.....	.....	6 00	15 00
Individual line, residence.....	.....	12 00	24 00
Two-party line, residence.....	.....	.....	.....
Four-party line, residence.....	.....	12 00	21 00
Residence extension.....	.....	6 00	9 00
Rural line, business.....	.....	12 00	24 00
Rural line, residence.....	.....	12 00	21 00
<i>Jacksonville Exchange:</i>			
Individual line, business.....	36 00	24 00	51 00
Business extension.....	12 00	12 00	18 00
Individual line, residence.....	24 00	18 00	39 00
Two-party line, residence.....	18 00	18 00	33 00
Four-party line, residence.....	15 00	18 00	27 00
Residence extension.....	6 00	9 00	9 00
Rural line, business.....	24 00	18 00	30 00
Rural line, residence.....	18 00	18 00	27 00
<i>Private Branch Exchange:</i>			
Boards.....	.....	.....	24 00
Stations.....	.....	12 00	15 00
Stations, hotel service.....	.....	.....	6 00
Trunks.....	.....	24 00	72 00
Intercommunicating trunk systems.....	.....	24 00	72 00

In re PROPOSED RATES OF THE ILLINOIS TEL. CO. 1239
C.L.125]

Annual Rates

	<i>Illinois Bell Telephone Company Prior to Consolidation Net Rates</i>	<i>Illinois Telephone Company Present Net Rates</i>	<i>Illinois Telephone Company Proposed Gross Rates</i>
Lilaberry Exchange:			
Individual line, business	\$36 00	.....	\$39 00
Four-party line, business	30 00	.....	.....
Business extension	15 00	.....	15 00
Individual line, residence	21 00	.....	24 00
Four-party line, residence	18 00	.....	21 00
Residence extension	7 20	.....	9 00
Rural line, business	27 00	.....	30 00
Rural line, residence	21 00	.....	24 00
Manchester Exchange:			
Individual line, business .....	.....	\$24 00	\$30 00
Two-party line, business .....	.....	24 00	27 00
Business extension .....	.....	12 00	15 00
Individual line, residence .....	.....	12 00	27 00
Four-party line, residence .....	.....	12 00	21 00
Residence extension .....	.....	6 00	9 00
Rural line, business .....	.....	12 00	27 00
Rural line, residence .....	.....	12 00	24 00
Murrayville and Woodson Exchanges:			
Individual line, business .....	.....	18 00	30 00
Two-party line, business .....	.....	18 00	27 00
Business extension .....	.....	9 00	15 00
Individual line, residence .....	.....	18 00	27 00
Four-party line, residence .....	.....	18 00	24 00
Residence extension .....	.....	9 00	9 00
Rural line, business .....	.....	18 00	30 00
Rural line, residence .....	.....	18 00	27 00
Roodhouse and Whitehall Exchanges:			
Individual line, business	24 00	24 00	39 00
Two-party line, business	18 00	24 00	36 00
Business extension	12 00	12 00	15 00
Individual line, residence	18 00	12 00	33 00
Two-party line, residence	12 00	12 00	27 00
Four-party line, residence .....	.....	12 00	24 00
Residence extension	6 00	6 00	9 00
Rural line, business	24 00	12 00	27 00
Rural line, residence	18 00	12 00	24 00

NOTE: *Proposed Rates.* Bills are payable monthly in advance at the office of the company, and if paid on or before the twentieth of the month in which service is rendered, a discount of 25 cents will be allowed on each main line station (excepting service stations) and on each private branch exchange trunk.

All interested parties having been notified, the matter came on for hearing before the Commission on July 21, 1921, September 22, 1921, and January 17, 1922, at which hearings the petitioner and objectors were represented by counsel. At these hearings the Illinois Telephone Com-

pany submitted exhibits showing valuations of the property involved in this proceeding, operating revenues and operating expenses under the present and proposed rates, as well as exhibits bearing on other matters pertinent to the issue, and proof of publication of notice of intention to apply for authority to increase rates. The accounting staff of the Commission submitted a report of the examination of accounts and records of the Illinois Telephone Company and the exchanges purchased from the Illinois Bell Telephone Company covering the period from the year 1905 to October 31, 1921. The engineering staff of the Commission submitted an inventory and appraisal of the property of the Illinois Telephone Company and of the exchanges purchased from the Illinois Bell Telephone Company, and a statement showing the estimated annual operating revenues and operating expenses of the combined properties.

The appraisals submitted by the Illinois Telephone Company are upon the reproduction basis using average unit costs for the period 1915 to 1919, inclusive. The Illinois Telephone Company estimates the reproduction cost new of the used and useful physical property in the combined plants to be \$1,146,017, and the reproduction cost new less depreciation, to be \$841,876, as of March 1, 1921, development cost to be \$238,972, and working capital to be \$35,829. The total reproduction cost new of the combined property is estimated by the company to be \$1,420,518, and the depreciated cost is estimated to be \$1,116,377. The appraisal submitted by the engineering staff of the Commission shows the original cost of the combined plant, including materials and supplies, but excluding non-useful property, to be \$860,679.

The report submitted by the accounting staff shows the balance in the depreciation reserve on July 1, 1921, to be \$216,870. From the evidence submitted by the petitioner it appears that this depreciation reserve is not in cash or securities, but has been reinvested in plant and equipment. The Commission does not believe that the company should be allowed to earn a return on the money

so invested, and for this reason the amount of the depreciation reserve, as indicated by the books of the company, will be deducted from the fair value of the property in order to determine a rate base on which a return should be allowed. In the *Chicago Telephone Company Rate Case*, Docket Nos. 8672 and 9291,* in which a similar procedure was followed, the Commission made the following comments:

"In addition thereto, petitioner proposed that the value of the depreciation reserve invested in plant in the sum of \$16,264,604, for the city of Chicago, and the sum of \$3,500,000 for the suburban territory, should be deducted from the otherwise fair and reasonable value of its property, in fixing a rate base upon which petitioner should be allowed a return, in the present proceeding. This proposition eliminates the question of the public paying a return on plant value derived from previous rates paid by the public."

The petitioner has introduced evidence on the intangible element known as development cost or going value. As the Commission understands going value, it is that value which accrues to a property by reason of the fact that it is a going concern and is capable of earning money under reasonable rates and its determination must of necessity be involved in and made coexistent with the fair value of the property as a whole.

A public utility is required to replace the various units of its property as they reach the end of their useful period. The cost of such replacement is not a direct charge to operation, but to the depreciation account. Funds for this purpose are properly obtained by setting aside from earnings a sufficient sum each year to maintain the integrity of the investment and this annual contribution constitutes a depreciation reserve. The Illinois Telephone Company estimates that the sum of \$87,454 should be set aside annually from earnings in order to meet accruing depreciation and the engineering staff of the Commission estimates that the annual amount set aside from earnings should be at least \$54,393. From a consideration of the

* See Commission Leaflet No. 111, p. 93.

character of the plant of the Illinois Telephone Company and from a careful study of the depreciation reserve account as submitted by the accounting section of the Commission, it appears that an annual amount equal to 5.5 per cent. of the original cost of the depreciable property of the combined plant will constitute a reasonable annual allowance to meet the accruing depreciation. This will require the Illinois Telephone Company to set aside annually from earnings the sum of \$46,572.

No evidence was submitted by the petitioner bearing upon the cost of furnishing telephone service by the combined property of the Illinois Telephone Company. The accounting staff of the Commission submitted book figures of the Illinois Telephone Company, showing operating expenses up to October 31, 1921. It is the purpose of this order to fix rates for the future. Therefore, the present operating expenses of the company can hardly be considered as a proper basis, owing to the fact that the consolidation of the property is not entirely complete and the exchanges are not operating as a single, well regulated unit, but rather there has been, and now is, considerable confusion resulting from the consolidation which is reflected in increased operating expenses.

The engineering staff of the Commission submitted a report in which the annual cost of furnishing service by the Illinois Telephone Company is estimated and this report is the best evidence of record as to the future operating expenses of the consolidated plant. The annual operating expenses as submitted by the engineering staff, including the depreciation of \$46,572, hereinafter fixed, taxes and other deductions, together with an annual allowance for the amortization of consolidation expenses, are \$176,575.

The total annual revenues, based upon the number of subscribers' stations in service on December 1, 1921, under the rates at present in effect, are \$158,391, thus indicating a net annual deficit under the present rates of \$18,184. The engineering staff of the Commission made an analysis of operating revenues and prepared an exhibit which became part of the record in this cause. This ex-

hibit shows the increase in annual operating revenue which will result under the classification and distribution of stations probable under the proposed rate to be \$86,229. This increase in annual operating revenues will result in a net annual income of \$68,045, which is a return of 9 per cent. upon the rate base of \$753,130* hereinafter found and the Commission considers this return to be excessive. It appearing that the Illinois Telephone Company is entitled to increased rates, and it further appearing that the proposed increased rates will result in an excessive return, therefore, a modified schedule of rates, as shown herewith, has been prepared which will result in an annual increase in operating revenues of \$59,250. This increase will result in a net annual income of approximately \$41,066, which is a return of 5.45 per cent. upon \$753,130.*

Due to the consolidation of the exchange properties involved in this case and the probable shifting of subscribers to the different classes of service that will be available, there is some uncertainty as to the net operating revenue to be obtained. Therefore, until actual results have been obtained from operation as a consolidated plant, the Commission believes that the hereinafter authorized rates should be established as temporary rates and jurisdiction of this case retained for the purpose of entering such further order as may appear necessary.

The Commission having considered all the evidence in this cause and being fully advised in the premises, finds as follows:

1. The original cost of the used and useful physical property of the petitioner as the same existed on March 1, 1921, including materials and supplies, but exclusive of working capital, is \$860,679.

2. That the reproduction cost new of the said useful physical property, as of March 1, 1921, based upon the average prices which prevailed during the five-year period 1915 to 1919, inclusive, is \$1,146,017; the present condition of said property, 70 per cent. of its condition when new and the reproduction cost, less accrued depreciation, is \$802,212.

* So appears in original.

3. That the fair value of the property used and useful in furnishing telephone service in the towns stated herein, including all elements of value, tangible and intangible, as of March 1, 1921, is \$970,000.

4. The depreciation reserve has been used for the purpose of making extensions and betterments to plant and equipment and should therefore be deducted from the fair value of the physical property in order to determine a rate base.

5. For the purpose of fixing just and reasonable rates, the rate base of March 1, 1921, on which the company should be allowed to earn a fair return, is \$753,130.

6. The total annual operating revenue under the rates at present in effect is \$158,391.

7. The sum which the petitioner should be permitted to set aside annually for accruing depreciation is \$46,572.

8. The annual operating expenses for the ensuing year, exclusive of taxes, uncollectable accounts, rent deductions and consolidation expenses, but including an allowance of \$46,572, as a reserve for accruing depreciation, are \$160,557, and to this sum should be added \$9,657 for taxes, \$482 for uncollectable accounts, \$1,529 for rent deductions, and \$4,350 for consolidation expenses.

9. The present rates under conditions now prevailing will result in a net annual deficit of \$18,184. The computation is as follows:

Annual operating revenues.....		\$158,391
Operating expenses	\$160,557	
Taxes	9,657	
Uncollectable accounts	482	
Rent deductions	1,529	
Consolidation expenses	4,350	
		<hr/>
		176,575
		<hr/>
DEFICIT		\$18,184

10. The rates proposed by the petitioner will yield annually for interest and return, the sum of \$68,045, which is 9 per cent. of the rate base found herein; that this return is excessive and that the said rates are unjust and un-

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reasonable, and should be permanently suspended, annulled and cancelled. The computation is as follows:

Total annual revenues.....		\$244,620
Operating expenses	\$160,557	
Taxes	9,657	
Uncollectable accounts	482	
Rent deductions	1,529	
Consolidation expenses	4,350	
	<hr/>	176,575
AVAILABLE FOR RETURN.....		<hr/> \$68,045

which is 9 per cent. of \$753,130.*

11. The rates set forth hereafter will yield available for interest and return, as nearly as may be computed, the sum of \$41,066, which represents approximately 5.45 per cent. of the rate base found herein. These rates are just and reasonable as temporary rates and should be permitted to go into effect. The computation is as follows:

Total annual revenues.....		\$217,641
Operating expenses	\$160,557	
Taxes	9,657	
Uncollectable accounts	482	
Rent deductions	1,529	
Consolidation expenses	4,350	
	<hr/>	176,575
AVAILABLE FOR RETURN.....		<hr/> \$41,066

which is 5.45 per cent. of \$753,130.*

It is, therefore, ordered, That Rate Schedules I. P. U. C. 1 filed by the Illinois Telephone Company on June 16, 1921, be, and the same are hereby, permanently suspended, annulled and cancelled.

It is further ordered, That the Illinois Telephone Company be, and the same is hereby, permitted and authorized to file the following schedules of rates to be designated as I. P. U. C. 2, covering telephone service in the cities and villages of Alexander, Jacksonville, Literberry, Murrayville, and Woodson, county of Morgan, Carrollton, Greenfield, Hillview, Patterson, Roodhouse, Whitehall and

* So appears in original.

Wrights, county of Greene, and Manchester, county of Scott, and vicinities, effective as of February 1, 1922, *provided* the said schedules of rates are filed with the Commission not later than ten days from the date of service of this order; or effective at any subsequent date, *provided* the said schedules of rates are filed with the Commission not less than ten days prior to the effective date of the said schedules, and the said schedules of rates when filed with the Commission as specified herein, and posted or filed in the offices of the public utility, all as required by the Illinois Commerce Commission Act, and General Order No. 28,* as amended, adopted by the Commission, shall be the legal rates covering telephone service in the cities and villages of Alexander, Jacksonville, Litterberry, Murrayville and Woodson, county of Morgan, Carrollton, Greenfield, Hillview, Patterson, Roodhouse, Whitehall and Wrights, county of Greene, and Manchester, county of Scott, and vicinities. The rates for the following classes of service shall be stated in words and figures as follows:

MODIFIED RATES.

	Net Rates — Annual Basis	
	Business	Residence
<i>Jacksonville Exchange:</i>		
Individual line stations.....	\$42 00	\$30 00
Two-party line stations.....	36 00	24 00
Four-party line stations.....		18 00
Rural, individual line stations.....	27 00	24 00
Rural, party line stations.....	27 00	18 00
Extension stations.....	12 00	6 00
Joint user on individual line.....	18 00	.....
<i>Private Branch Exchange:</i>		
Boards.....	24 00	.....
Stations.....	15 00	15 00
Stations, hotel service.....	6 00	.....
Trunks.....	57 00	.....
Trunks, intercommunicating.....	57 00	33 00
Switching service stations.....		9 00
<i>Carrollton Exchange:</i>		
Individual line stations.....	36 00	27 00
Two-party line stations.....	30 00	24 00
Four-party line stations.....		21 00
Rural, individual line stations.....	27 00	24 00
Rural, party line stations.....	27 00	18 00
Extension stations.....	12 00	6 00
Joint user on individual line.....	18 00

* See Commission Leaflet No. 104, p. 962.

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	Net Rates —	Annual Basis
Private Branch Exchange:		
Boards.....	\$24 00
Stations.....	15 00	\$15 00
Stations, hotel service.....	6 00	.....
Trunks.....	45 00	.....
Trunks, intercommunicating.....	45 00	27 00
Switching service stations.....	.....	9 00
Greenfield, Roodhouse and Whitehall Exchanges:		
Individual line stations.....	33 00	24 00
Two-party line stations.....	27 00	21 00
Four-party line stations.....	.....	18 00
Rural, individual line stations.....	27 00	24 00
Rural, party line stations.....	27 00	18 00
Extension stations.....	12 00	6 00
Joint user on individual line.....	18 00	.....
Private Branch Exchange:		
Boards.....	24 00	.....
Stations.....	15 00	15 00
Stations, hotel service.....	6 00	.....
Trunks.....	45 00	.....
Trunks, intercommunicating.....	45 00	27 00
Switching service stations.....	.....	9 00
Alexander, Lilerberry and Woodson Exchanges:		
Individual line stations.....	27 00	21 00
Two-party line stations.....	24 00	.....
Four-party line stations.....	.....	18 00
Rural, individual line stations.....	24 00	21 00
Rural, party line stations.....	24 00	18 00
Extension stations.....	12 00	6 00
Joint user on individual line.....	18 00	.....
Private Branch Exchange:		
Boards.....	24 00	.....
Stations.....	15 00	15 00
Stations, hotel service.....	6 00	.....
Trunks.....	33 00	.....
Trunks, intercommunicating.....	33 00	21 00
Switching service stations.....	.....	9 00
Hillview, Manchester, Murrayville, Patterson and Wrights Exchanges:		
Individual line stations.....	24 00	21 00
Two-party line stations.....	21 00	.....
Four-party line stations.....	.....	18 00
Rural, individual line stations.....	24 00	21 00
Rural, party line stations.....	24 00	18 00
Extension stations.....	12 00	6 00
Joint user on individual line.....	18 00	.....
Private Branch Exchange:		
Boards.....	24 00	.....
Stations.....	15 00	15 00
Stations, hotel service.....	6 00	.....
Trunks.....	33 00	.....
Trunks, intercommunicating.....	33 00	21 00
Switching service stations.....	.....	9 00

NOTE: Bills are payable in advance at the office of the company, and if paid on or before the twentieth day of the month, the net rate will apply. If not paid on or before the twentieth day of the month, a penalty of 25 cents will be added on each main line station (excepting extension stations and service stations) and on each private branch exchange trunk.

It is the intent of this order that all other rates, rules and regulations to be specified in Rate Schedules I. P. U. C. 2, shall be the same as set forth in Rate Schedules I. P. U. C. 1.

It is further ordered, That the Illinois Telephone Company be, and the same is hereby, directed to set aside monthly to provide for accruing depreciation upon its physical property, the following sums:

(a) For the combined property in service on October 1, 1921, \$3,881.

(b) For all additions placed in service subsequent to October 1, 1921, 5.45 per cent. annually of the actual cost of such additions.

It is further ordered, That all items of expense having to do with the upkeep of the plant shall be treated strictly in accordance with the Uniform System of Accounts for Telephone Companies now in effect by this Commission, particular attention being given to the proper proportionment between maintenance expense and expense due to depreciation of plant and equipment.

It is further ordered, That the Illinois Telephone Company be, and the same is hereby, required to file with the Commission, in duplicate, quarterly accounting statements on Form H-601, covering the operation of the company, and file the said statements within thirty days following the termination of each quarter of the calendar year beginning with the second quarter of 1922, and continuing until further order of the Commission.

The Commission, having in mind that there may be a change in operating costs and conditions affecting the net revenue of this utility, hereby retains jurisdiction of this cause with respect to these matters for the purpose of receiving further evidence thereon where such changes are apparent and will enter such further orders as to the rates under consideration herein as may be deemed meet in the premises.

By order of the Commission, at Springfield, Illinois, this eighth day of February, 1922.

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In re APPLICATION OF THE ILLINOIS TELEPHONE COMPANY
FOR AN ORDER AUTHORIZING THE ISSUE OF NOTES AND
FIRST MORTGAGE BONDS AS COLLATERAL SECURITY
THEREFOR.

Case No. 12146.

Decided February 15, 1922.

Issue of 7 Per Cent. Notes and 5 Per Cent. Bonds Authorized.

OPINION AND ORDER.

Application having been made to the Illinois Commerce Commission by the Illinois Telephone Company for an order authorizing said company to issue and sell \$100,000 aggregate principal amount of its five-year 7 per cent. notes and to issue \$150,000 aggregate principal amount of its first mortgage 5 per cent. bonds as collateral security for said notes, and a hearing having been held thereon, and the petitioner having presented its evidence, and the matter having been submitted to the Commission for disposition, it appears:

That the Illinois Telephone Company is a corporation organized under the laws of the State of Illinois, and is engaged in the operation of a telephone system in the counties of Morgan, Greene, and Scott, in the state of Illinois; that it is a public utility within the meaning of Section 10, Article I, of an act concerning Public Utilities, approved June 29, 1921, and now in force in Illinois;

That the balance sheet of said company as of October 31, 1921, copy of which is attached to said application as Exhibit A, shows its fixed capital and outstanding stock, bonds, etc., as follows:

On the Asset Side Thereof:

Total fixed capital.....	\$762,410 92
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On the Liability Side Thereof:

Common stock	\$269,650 00
Premium on stock.....	206,484 00
Funded debt (first mortgage bonds).....	76,100 00
Bills payable	20,000 00

TOTAL	\$572,234 00
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That said company has increased its investment in fixed capital, representing its telephone plant and equipment, during the period beginning January 31, 1917, and ended October 31, 1921, by the sum of \$378,878.42; that of such increase \$316,784 was made by or on account of the issuance of stock and bonds, all as shown by said Exhibit A, leaving a remainder in the sum of \$62,094.42 of such increase made from income or from other moneys in the treasury of said company not secured by or obtained from the issuance of stocks, bonds or other evidences of indebtedness, except short term obligations; that during said period said company has refunded \$4,000 aggregate principal amount of its first mortgage bonds and made said refunding from moneys in its treasury not secured by or obtained from the issuance of securities; that said company has recently acquired certain property from the Illinois Bell Telephone Company, which property had been operated in competition with the property of said Illinois Telephone Company; that a considerable amount of new construction is required in order to completely consolidate the two properties and to unify the telephone service in Morgan, Greene, and Scott Counties; that at the present time the sale of notes secured by mortgage bonds as collateral is the only practical manner by which to finance the necessary new construction;

That the petitioner now desires the consent and approval of the Commission to the issuance and sale of \$100,000 aggregate principal amount of its five-year 7 per cent. notes for the purpose of reimbursing its treasury for the expenditures made therefrom for capital purposes and for the further purpose of providing for such new construction required, as aforesaid; and that the petitioner also desires the consent and approval of the Commission to the issuance of \$150,000 aggregate principal amount of its first mortgage 5 per cent. bonds as collateral security to said notes.

The Commission having considered the application, and

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the evidence submitted in support thereof, and being fully advised in the premises, is of the opinion, and finds:

That the moneys to be procured by said company from the issuance and sale of its said notes to be secured by its said bonds as collateral security, for which authority is sought, are reasonably required for the purposes hereinbefore stated; that said expenditures actually made for additions and betterments in the sum of \$62,094.42 and for refunding bonds in the sum of \$4,000, and said proposed expenditures to be made for new construction, as aforesaid, were and are reasonably necessary and required and the same are not in whole or in part reasonably chargeable to operating expenses or to income; and that the prayer of the petitioner for authority to issue and sell \$100,000 aggregate principal amount of its said notes and for authority to issue \$150,000 aggregate principal amount of its said bonds to be used as collateral security for said notes and to apply the proceeds of the sale of said notes to the aforesaid purposes, under the terms and conditions hereinafter authorized, is reasonable and should be granted.

It is, therefore, ordered by the Illinois Commerce Commission, That the Illinois Telephone Company be, and it is hereby, authorized to issue and sell \$100,000 aggregate principal amount of its five-year 7 per cent. notes, said notes to be dated not later than April 1, 1922, and to mature five years after their date, and to bear interest at the rate of 7 per cent. per annum.

It is further ordered, That the Illinois Telephone Company be, and it is hereby, authorized to issue, but not to sell, \$150,000 aggregate principal amount of its first mortgage 5 per cent. bonds, dated January 1, 1907, maturing January 1, 1937, bearing interest at the rate of 5 per cent. per annum, and to be issued under and secured by said company's first mortgage or deed of trust, dated January 1, 1907, given to Sangamon Loan and Trust Company, as Trustee; and that such first mortgage bonds herein

authorized may be pledged or deposited as collateral security for said notes herein authorized to be issued and sold in the proportion of \$1,500 principal amount of bonds to \$1,000 principal amount of notes, but none of such bonds shall be used or disposed of for any other purpose without the further order of this Commission.

It is further ordered, That the authority to issue and sell said five-year 7 per cent. notes be, and the same is hereby, granted upon the following conditions and not otherwise:

(1) That said company shall sell said notes so as to net said company not less than the face amount thereof and accrued interest thereon, and shall apply the proceeds therefrom to the following purposes only:

(a) To the reimbursement of its treasury for moneys expended therefrom for the construction, extension or improvement of or addition to its facilities during the period beginning January 31, 1917, and ended October 31, 1921, or for the discharge of obligations incurred therefor	\$62,094 42
(b) To the reimbursement of its treasury for moneys expended therefrom for the refunding of its first mortgage bonds during the period beginning January 31, 1917, and ended October 31, 1921.....	4,000 00
(c) For the construction, extension or improvement of or addition to its facilities.....	33,905 58
TOTAL	\$100,000 00

(2) That said company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale or disposal of the notes herein authorized to be issued, and such accounts and vouchers and records of said company shall be open to audit and may be audited by accountants or examiners designated for such purpose by the Commission: that said company shall, within ninety days after the date of this order and every ninety days thereafter, so long as may be necessary to account for the issuance and sale of all of

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the notes herein authorized and the application of the proceeds therefrom, file with the Commission a report (in duplicate), which report shall be signed and verified by an executive officer of said company having knowledge of the facts, and shall show: (a) the amount of such notes sold during such period; (b) the amount of bonds pledged and in what proportion pledged in accordance with this order; (c) the date of such sale or sales, pledge or pledges; (d) to whom such notes were sold; (e) amount of proceeds realized from such sale or sales; (f) amount of such proceeds applied for the purpose (or each of the purposes) specified in this order; (g) detailed statement of expenditures of such proceeds for new construction; (h) any other terms or conditions of sale. If during any such period none of such notes are sold or proceeds expended, the report shall state such facts. When all transactions relating to the issuance and sale of the notes herein authorized and the application of the proceeds therefrom have been completed a final report shall be filed forthwith in lieu of a report at the end of the then current ninety days' period.

(3) That said company shall, within ninety days after the date of this order, file with the Commission a certificate or certificates (in duplicate) showing the cancellation, cremation or other disposition of said \$4,000 aggregate principal amount of its first mortgage bonds refunded as hereinbefore stated.

(4) That said company shall, before the delivery of any of the notes and bonds herein authorized to be issued, cause to be printed, stamped or engraved upon the face of each of said notes and bonds, for the proper and easy identification thereof, the following:

ILLINOIS COMMERCE COMMISSION,

Authorization No. 1281,

February, 1922.

It is further ordered, That said company be, and it is hereby, charged an amount equal to 10 cents for every

\$100 of bonds authorized by this order, said charge amounting to \$150 and the same shall be paid into the State Treasury before any of the securities herein authorized shall be issued.

By order of the Commission, at Springfield, Illinois, this fifteenth day of February, 1922.

In re PROPOSED REVISION IN RATES OF THE BEASON TELEPHONE COMPANY.

Case No. 11559.

Decided February 21, 1922.

Application for Increased Rates Denied on the Ground of Insufficient Evidence.

ORDER.

On March 30, 1921, the Beason Telephone Company filed with the Commission Rate Schedule I. P. U. C. 3, in which it is proposed to increase the rates for telephone service in the village of Beason, county of Logan, and vicinity. It appeared from an examination of the proposed rates that the aforesaid schedule should be suspended pending an investigation by the Commission and a hearing upon the reasonableness of the proposed advanced rates. Accordingly, the said schedule of proposed rates was suspended until August 28, 1921; and subsequently resuspended to February 26, 1922.

Pursuant to notices provided by law, a hearing was held in the office of the Commission at Springfield, Illinois, on May 3, 1921. *B. S. Gordon*, manager, Beason Telephone Company, appeared for the petitioner, and no one appeared objecting.

No data as to operating expenses, operating revenue, or annual income of the company under the present or under the proposed rates were submitted by the petitioner. Furthermore, no information as to the use of the free service from Beason to Wayne City was submitted, nor

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was any exhibit submitted indicating the annual return from the establishing of a toll charge of 10 cents per call on messages from Beason to Wayne City. The evidence fails to disclose that the present rates are not just and reasonable and until an affirmative showing is made that such rates are unjust, unreasonable and insufficient for future operation, the Commission finds that no change in the existing rates should be made.

The Commission, therefore, finds that the present rates of the petitioner covering telephone service in the village of Beason, and vicinity, are just and reasonable.

The Commission further finds that the petitioner has not produced sufficient evidence from which it can determine that the rates specified in Rate Schedule I. P. U. C. 3 are just and reasonable rates for any period of time in the future; and further finds that the petition for increased rates should be denied and Rate Schedule I. P. U. C. 3 should be annulled and cancelled.

It is, therefore, ordered, That Rate Schedule I. P. U. C. 3, of the Beason Telephone Company, filed March 30, 1921, covering rates for telephone service in the village of Beason, county of Logan, and vicinity, be, and the same is hereby, cancelled and annulled.

By order of the Commission, at Springfield, Illinois, this twenty-first day of February, 1922.

In re PROPOSED ADVANCE IN RATES OF THE CENTRAL UNION
TELEPHONE COMPANY.

Case No. 10421.

Decided March 21, 1922.

Former Order Requiring Company to File Detailed Inventory Amended.

SECOND SUPPLEMENTAL ORDER.

On March 22, 1921,* the Public Utilities Commission entered a supplemental order in the above-entitled case

* Noted in Commission Leaflet No. 114, p. 1307.

modifying the terms of the provisional order previously entered by the Public Utilities Commission on July 31, 1920.* Section 6 as amended by Commission's order of March 22, 1921,† reads as follows:

"It is, therefore, ordered by the Public Utilities Commission of Illinois as follows:

That Section 6 of the provisional order * approved in the above-entitled matter on July 31, 1920, be, and the same is hereby, amended to read as follows:

'Section 6. That on or before June 30, 1921, the Illinois Bell Telephone Company, successor of the Central Union Telephone Company, shall file in duplicate with the Commission, a detailed inventory of its property devoted to telephone service in Springfield, Buffalo, Rochester, Mechanicsburg, Riverton and Cantrall, and vicinities, which shall segregate the several classes of property in accordance with the uniform system of accounts for telephone companies adopted by the Commission and effective July 1, 1914. This inventory shall be of the latest possible date but in no case of a date prior to December 31, 1920. From the inventory so compiled and in addition to the elements of value now of record the company shall be prepared to furnish the Commission appraisals which shall show:

(a) The original cost of the property as of July 1, 1920; or as of the date of the inventory and the original cost less depreciation accrued to the date of the valuation;

(b) In lieu of the appraisal required in Paragraph A the company may furnish an appraisal both as to cost new and cost new, less depreciation, showing the cost of historically reproducing the property in the event the original cost can not be ascertained;

(c) The cost of reproduction as of January 1, 1916, of the property then existing and the cost of reproduction, less depreciation, accrued at January 1, 1916;

(d) The net annual cost of all additions and betterments to the telephone property from January 1, 1916, to January 1, 1920, or the date of the inventory.'

It is further ordered, That the detailed inventory as ordered herein shall be made up from a field check and inspection of the property involved, and the original field sheets, maps, and working papers made in connection with said inventory shall be available to the engineering staff of the Commission, and compiled in such form that the inventory can be readily checked by the Commission's engineering staff."

* See Commission Leaflet No. 106, p. 127.

† Noted in Commission Leaflet No. 114, p. 1307.

On April 22, 1921, the Illinois Bell Telephone Company filed a petition and on June 14, 1921, filed an amended petition, both of which recite in substance, that the first supplemental order* of the Public Utilities Commission entered on March 22, 1921, was entered without notice to the petitioner herein and that a hearing had not been held; that the preparation of the inventory as ordered therein would require an expenditure of a sum in excess of \$25,000; that the cost of reproduction as of January 1, 1916, would not be material upon a determination of the present fair value of the petitioner's property and that the company should not be required to furnish such inventory and appraisal at the expense of the public when the same is not material or relevant to any of the issues before the Commission; that the petitioner now has filed with the Commission an inventory and appraisal of the Springfield exchange property as it existed on January 31, 1919, together with a statement of net additions to plant since that date, and that the requirements of the aforesaid order insofar as it relates to Cantrall, Riverton, Mechanicsburg, Rochester and Buffalo exchanges are not material and relevant to any pending issue. Petitioner further prayed that a hearing be granted by the Commission on the order* of March 22, 1921.

In accordance with the request of the petitioner the matter came on for hearing before the Commission at Springfield, Illinois, on June 14, 1921. The Illinois Bell Telephone Company was represented by *Ben B. Boynton*, attorney, and no one appeared representing the objectors in the case.

Testimony was introduced in support of the contention of the company as set forth in the petition, including testimony regarding an estimate of the time required and the estimated cost of preparing the inventory as ordered by the Commission, and also testimony regarding the evidences of valuation now on file with the Commission.

* Noted in Commission Leaflet No. 114, p. 1307.

It appears from the testimony produced at the hearing that the inventory of the Springfield exchange property as of January 31, 1919, now on file and admitted as evidence in the cause herein, was prepared from the office records of the Central Union Telephone Company, and was not compiled from a field check and inspection of the property. The record also shows that the company has filed a statement of additions to and retirements from the Springfield exchange property since January, 1919, and that this information can be readily brought up to date.

In support of its contention that the Illinois Bell Telephone Company should be relieved from compiling the inventory as ordered by the Commission, testimony was presented to the effect that the cost of the inventory which it will be required to make under the terms of the order will be approximately \$25,000. The Commission has given careful consideration to this evidence and realizes, insofar as it is possible to do so, the company should be relieved of any expense which would mean an increased burden to the subscribers of the telephone company in the way of rates. On the other hand, in order properly to arrive at a fair value of the plant, the Commission should have access to accurate and complete records of plant and equipment in use by the telephone company in order to readily and accurately prepare a valuation report of the property.

In view of the testimony submitted in the record by the Illinois Bell Telephone Company regarding the availability of complete records of plant and equipment of the Springfield exchange of the company, now on file in the offices of the company, the Commission is of the opinion, and finds, that the Illinois Bell Telephone Company should be relieved from filing the inventory and appraisals required by the supplemental order* of the Commission

* Noted in Commission Leaflet No. 114, p. 1307.

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dated March 22, 1921, amending Section 6 of an order in the above-entitled cause dated July 31, 1920.*

It is, therefore, ordered by the Illinois Commerce Commission, That Section 6 of the provisional order approved in the above-entitled matter on July 31, 1920, and amended on March 22, 1921,† be, and the same is hereby, further amended to read as follows:*

Section 6. That on or before May 1, 1922, the Illinois Bell Telephone Company, successor of the Central Union Telephone Company, shall file (in triplicate) with the Commission a detailed statement showing the net cost of all additions and betterments to the telephone property devoted to telephone service in Springfield, Buffalo, Rochester, Mechanicsburg, Riverton and Cantrall, and vicinities, from January 31, 1919, to December 31, 1921. This report shall segregate the several classes of property in accordance with the Uniform System of Accounts for Telephone Companies, adopted by the Commission and effective July 1, 1914.

By order of the Commission, at Springfield, Illinois, this twenty-first day of March, 1922.

* See Commission Leaflet No. 106, p. 127.

† Noted in Commission Leaflet No. 114, p. 1307.

INDIANA.

Public Service Commission.

In re APPLICATION OF THE HOPE INDEPENDENT TELEPHONE COMPANY AND THE FLAT ROCK TELEPHONE COMPANY FOR AUTHORITY TO SELL AND PURCHASE THE PROPERTY OF THE FLAT ROCK TELEPHONE COMPANY.

No. 6418.

Decided March 3, 1922.

Cash on Hand and in Bank Held Part of Assets Subject to Sale and Transfer—Value of Stock of Non-Consenting Stockholder Determined—Sale and Purchase of Property Authorized.

OPINION AND ORDER.

On January 20, 1922, the Hope Independent Telephone Company and the Flat Rock Telephone Company filed with the Commission their joint petition in which the Commission is asked to authorize the Flat Rock Telephone Company to sell and the Hope Independent Telephone Company to purchase the property of the former company. The petition is as follows:

“Your petitioners, the Hope Independent Telephone Company and the Flat Rock Telephone Company, would respectfully represent and show that each is incorporated under the laws of the State of Indiana and their places of business are, former at Hope, Indiana, and latter at Flat Rock, Indiana.

Your petitioner, the Flat Rock Telephone Company, desires to sell its physical property to the Hope Independent Telephone Company for the sum of \$5,600, which includes the money in bank and the depreciation fund. The Flat Rock Telephone Company had operated this plant for over twenty years and at this time there is no profit derived from operation of same due to the fact that they have in service something over 200 telephones. With this number of telephones it is impossible to operate the exchange and show a return on the money invested.

Your petitioner, the Hope Independent Telephone Company, operating several exchanges in and near this community of Flat Rock, can operate

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this exchange of Flat Rock to a better advantage than under the existing ownership.

The stockholders and directors of the Flat Rock Telephone Company on January 17, 1922, after due notice to stockholders and directors, held a special meeting in the office of the telephone company and accepted the following proposition made by the Hope Independent Telephone Company:

All stockholders present voted and authorized the president and secretary to sell the property. The stock represented at this meeting was 36 shares out of 40 shares, making 90 per cent. of the stock represented. One stockholder, J. W. Girton, owner of 4 shares, was absent and was not represented. There are only 3 stockholders in this company and their names and addresses with number of shares of stock each holds are as follows:

	<i>Shares</i>
Everitt Harrod, Flat Rock, Indiana.....	35
Wm. M. Harrod, Flat Rock, Indiana.....	1
J. W. Girton, 510 So. W. St., Shelbyville, Indiana.....	4

The directors of the Flat Rock Telephone Company also directed their president and secretary to proceed with the sale."

It appears that J. W. Girton did not consent to the proposal of sale and purchase and did not attend the stockholders' and directors' meeting which was held by the stockholders and officers of the Flat Rock Telephone Company pursuant to notice. The non-consenting stockholder, on February 2, 1922, filed with the Commission two papers, one entitled "Protest and Motion to Dismiss," and the other entitled "Answer and Protest." The protest and motion to dismiss is as follows:

"The protestant, Jacob W. Girton, represents and shows that he is a patron, director and stockholder of the Flat Rock Telephone Company, and he moves the Commission to dismiss the petition herein for the following reasons:

(1) That the petition is indefinite and uncertain and does not inform this protestant as to what property, money, building and loan stock, etc., is prayed to be sold and protestant is, therefore, unable to make an intelligent defense to the same;

(2) That the Commission has no authority to order the cash and moneys of the said Flat Rock company sold;

(3) That the Commission has no authority to order the exchange of real estate for the property of the said Flat Rock company as prayed for in the petition;

(4) That the Commission has no authority to order the Flat Rock company's plant, etc., sold for the consideration named in the petition herein, without the consent of this protestant, which consent he hereby refuses to grant."

The answer and protest is as follows:

"The protestant says that he is a patron, stockholder and director in the Flat Rock Telephone Company and he hereby protests against the petition in this cause for the following reasons:

(1) He denies each and every material allegation set out and contained in the petition;

(2) The amount of the selling price set out in the petition is not sufficient;

(3) The amount of money in bank and in building and loan is not shown and the same should not and can not be considered and sold as prayed for in the petition herein;

(4) The accounts due said Flat Rock Telephone Company are not shown and the same should not and can not be considered and sold as prayed for in the petition herein;

(5) The proposed sale does not provide for a cash payment or any part thereof;

(6) The value of the 20 acres of land to be deeded to the Flat Rock company in part payment for said company's plant, money in bank, building and loan stock, etc., is merely speculative and the price fixed for the same in the petition herein is in excess of the true value of said land, and if so deeded, this protestant would be put to great expense in the employment of attorneys in instituting legal proceedings in order to reduce his interest in said 20 acres of land to cash;

(7) That the petition does not itemize and show the annual earnings and expenses of said Flat Rock Telephone Company, especially since the year 1918, when said company was granted an increase in rates by the Public Service Commission;

(8) That a sale of the Flat Rock plant and a merger with the said Hope company will mean an increase of rates to this protestant and others;

(9) That this protestant and one Ezra Pleak were the joint and equal owners of said Flat Rock telephone plant in the year 1900; that in said year they sold said plant for the sum of \$900 in cash and the further consideration that this protestant should not be charged or compelled to pay in excess of \$1.00 per month in the use of a telephone thereof at his residence on his farm, he then owned and now owns in Shelby County, Indiana. That the present owners of said Flat Rock Telephone Company had full knowledge of said sale and the consideration thereof, and purchased the same subject to the conditions and agreements of said sale

contract. That by reason thereof this protestant has a right and interest in said Flat Rock Telephone Company in addition to the shares of stock therein owned by him, and that upon any sale of said plant, his share and interest in said plant by reason of said contract of sale, should be determined and paid to him at its present cash value."

After due notice to the non-consenting stockholder and to the public, as well as to all other interested parties; this cause was heard at Shelbyville, Indiana, on February 3, 1922.

The motion to dismiss raises the question as to the authority of the Commission to authorize the sale of a property which includes the transfer of cash. The motion also raises the question of the Commission's authority to authorize the sale of the Flat Rock Telephone Company's property in this particular case, because of the fact that the non-consenting stockholder has withheld his consent to the transfer and because the consideration named in the agreement of sale and purchase is insufficient.

The Commission having fully considered the matters raised by the motion to dismiss is of the opinion that it should be overruled. The cash on hand and in bank belonging to a selling company and money deposited in its depreciation fund and in other reserves is as much a part of the property of the company as any other physical asset, and is the proper subject of a contract of sale and purchase. It would accomplish little to authorize a sale and purchase without the transfer of the cash or securities, for the reason that such elimination from the transfer would only serve to reduce the amount received as a consideration for the sale, and no non-consenting stockholder could be injured or benefited.

The question as to the sufficiency of the consideration in the contract of sale which protestant seems to raise by his motion to dismiss, is not well taken, for the reason that if the terms of the sale as evidenced by the contract seem to be fair and reasonable, the Commission in approving same would not be bound by that value in ascertaining the value to be placed on the stock of the non-consent-

ing stockholder, and therefore if the Commission found a fair and reasonable value of the property for the purpose of ascertaining the value of the shares held by the non-consenting stockholder, the non-consenting stockholder could not be injured if the consideration for which the property was sold under the contract should be less than that value.

The property involved in this proceeding consists of a rural telephone exchange in the vicinity of Flat Rock, Indiana, comprised of something over 200 stations and telephone lines and central office equipment necessary to the operation thereof.

On January 7, 1922, petitioner entered into a contract for the sale and purchase of this property, which is as follows:

"The Hope Independent Telephone Company agrees to purchase the Flat Rock telephone plant and all property belonging to the Flat Rock Telephone Company, including all poles, lines and telephones belonging to said Flat Rock Telephone Company; also all personal property including money in bank and building and loan at the consummation of the transaction, also Ford car, cross-arms, brackets, batteries, and all tools and property of every kind belonging to the Flat Rock Telephone Company and plant.

The price offered to the Flat Rock Telephone Company by the Hope Independent Telephone Company for the Flat Rock telephone plant and property is 20 acres tract of land belonging to George Dorrell valued at \$3,500 and \$2,100 in cash or mortgage notes, making a total of \$5,600.

The mortgage notes on the deferred payment are to be made payable as follows:

Due in one year.....	\$500 00
Due in two years.....	500 00
Due in three years.....	1,000 00

these notes to draw 7 per cent. interest from date until paid and to be secured by mortgage on the plant being sold by the Flat Rock Telephone Company to the Hope Independent Telephone Company; the taxes of said 20 acres of land for the year 1921 and payable in 1922 to be paid by George Dorrell, the taxes of the Flat Rock telephone plant for the year 1921 and payable in 1922 to be paid by the Hope Independent Telephone Company when they become due, provided this proposition is accepted by the Flat Rock Telephone Company, and the said plant transferred to the Hope Independent Telephone Company in a reasonable length of time."

It will be observed that the above agreement contemplates the transfer to the Flat Rock Telephone Company of 20 acres of land. At the hearing the agreement was modified so as to insert instead of the 20 acres of land, the sum of \$3,500 to be paid in cash. So that under the proposed agreement the selling company is to receive \$3,500 in cash and \$2,100 in mortgage notes, making a total consideration of \$5,600.

The evidence shows that the exchange is old, the greater portion of same having been constructed some fifteen or twenty years ago, and that very little of the property has since been replaced. It seems apparent from all the evidence that this exchange has greatly depreciated since its original construction.

In Cause No. 3858,* approved December 4, 1918, the Commission fixed a value on the property of the Flat Rock Telephone Company of approximately \$8,000, which, of course, included a certain amount for cash working capital and a certain amount for going value. Protestant insists that eliminating the cash on hand and the money in the depreciation fund from the contract of sale and purchase, petitioner is receiving a little more than \$4,000 for the property, whereas the value placed upon this property by the Commission is around \$8,000. On the other hand, petitioners assert that the property has rapidly depreciated since that hearing, due to the insufficiency of the revenue properly to replace the plant and to keep it in a good state of repair, and, in this connection, point to the fact that the revenues of the company have not been sufficient to maintain the depreciation charges.

Protestant asserts that the fair cash value of the property, not including the money in bank and the depreciation reserve fund, is \$6,000, and that including the cash and depreciation fund, the value is something over \$7,000. Protestant also urges that he is entitled to something in addition to the value because of the existence of a contract

* See Commission Leaflet No. 85, p. 404.

of long standing which he had with the Flat Rock Telephone Company by which they undertook to serve him at a rate of \$1.00 per month. This is the same contract which was before the Supreme Court in the case of *Public Service Commission v. Girton*, 128 N. E. 690, P. U. R. 1921-B, 16.

The Supreme Court in that case held that this contract was void insofar as it attempted to obligate the company to serve protestant at a rate lower than that found reasonable by this Commission. The Commission is, therefore, of the opinion that that contract, insofar as it pertains to the rate to be paid by protestant, has no value and is entitled to no consideration in this case.

From the consideration of all the evidence introduced in this cause and considering the present conditions of the property of the Flat Rock Telephone Company, and considering the amount of money it will be necessary to expend in the near future, and in order to preserve a continuity of service, the Commission is of the opinion, and finds, that a fair, reasonable value of this property would be \$6,500, which sum the Commission will use in fixing the value of the stock held by non-consenting stockholders. Protestant is the owner of 4 shares of the capital stock of this company, the total number of shares outstanding being 40. On this basis a share of stock would have a value of 1/40 of \$6,500, or \$162.50 per share, upon which basis the Flat Rock Telephone Company should retire the stock of protestant in this cause.

There was some discussion at the hearing of this cause with respect to the advisability of having the Commission's engineering department make a detailed inventory of the property of the company from which the Commission could establish an exact evaluation and of the necessity of making an audit of the books of petitioner. However, the Commission is of the opinion that because of the fact that such evaluation and audit would be an expense out of proportion to the benefits to be derived therefrom, such course should not be pursued at this time, particularly

in view of the fact that the expense of such investigation would have to be borne by the parties hereto.

It is, therefore, ordered by the Public Service Commission of Indiana, That the protest and motion to dismiss, filed by the protestant herein, be, and it is, overruled.

It is further ordered, That the contract of sale and purchase entered into on January 7, 1922, by and between the Hope Independent Telephone Company and the Flat Rock Telephone Company, by which the Flat Rock Telephone Company sells and transfers its telephone exchange at Flat Rock, to the Hope Independent Telephone Company in consideration of \$3,500 in cash and \$2,100 in mortgage notes, be, and it is, approved; the purchaser to assume all obligations to the depreciation fund.

It is further ordered, That the appraised value of the stock of the non-consenting stockholder who is the protestant herein, be, and it is, fixed by the Commission at \$162.50 per share, which amount petitioner will be required to pay in cash to said non-consenting stockholder as provided in Section 95½ of the Public Service Commission Act.

March 3, 1922.

KANSAS.

Public Utilities Commission.

In re APPLICATION OF THE NORTON COUNTY COOPERATIVE
TELEPHONE COMPANY FOR PERMISSION TO INCREASE
RATES FOR TELEPHONE SERVICE AND TO DISCONTINUE
CERTAIN FREE SERVICE.

Docket No. 4455.

Decided March 2, 1922.

**Increase in Rates Authorized—Free Service Between Exchanges
Limited—Toll Rates Established.**

ORDER.

Now on this second day of March, 1922, this matter comes on for order by the Commission upon the application of the Norton County Cooperative Telephone Company, and the evidence introduced before the Commission on the second day of February, 1922; and the Commission, after consideration of such application and evidence, finds that the rates charged by the applicant for telephone service at its exchanges named above are unreasonably low, and should be increased as hereinafter set forth.

The Commission further finds that the applicant, in connection with several other telephone companies, has made a practice of furnishing trunk line service between exchanges without charge except as included in the exchange rates, and that such service should be limited as hereinafter set forth; and that the applicant should be permitted to put in effect a schedule of toll rates for such service in cases where the same exceeds the limits hereinafter set forth.

It is, therefore, by the Commission ordered, That the Norton County Cooperative Telephone Company be permitted to file and put in effect a schedule of rates for telephone service at its exchanges at Norton, Almena, Dens-

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more, Edmond, Clayton, Norcatur, and Oronoque, Kansas, as follows, to-wit:

	<i>Per Month</i>
Individual line, business telephones.....	\$2 00
Individual line, residence telephones.....	1 25
Rural, party line telephones.....	1 25
Desk sets, extra.....	25
Rural switching service.....	50

It is by the Commission further ordered, That the Norton County Cooperative Telephone Company be permitted to limit its so-called free service between its exchange and the other exchanges enumerated herein as follows:

Between all exchanges of the Norton County Cooperative Telephone Company and all exchanges of the Decatur County Mutual Telephone Company, all subscribers of each of said companies to have access to all subscribers of the other company, and no calls shall be switched without charge by either company from exchanges beyond the exchange of the other company, and no calls shall be switched without charge from subscribers of either company to exchanges beyond those of the other company.

Between the Norton County Cooperative Telephone Company and the Long Island Farmers and Merchants Mutual Telephone Company of Alma, Nebraska; the Prairie View Mutual Telephone Company of Jennings, Kansas; and the Beaver Valley Telephone Company of Danbury, Nebraska; all of the subscribers on the nearest exchange of the Norton County Cooperative Telephone Company to have free access to all subscribers upon the nearest exchange of each of the other three companies named, and subscribers upon the nearest exchange of each of the other three companies named to have free access to all subscribers upon the nearest exchange of the Norton County Cooperative Telephone Company; all other calls to be subject to toll rates as hereinafter provided. *Provided, however, that nothing in this order shall be construed as attempting to fix a rate for interstate business between the exchanges in Kansas and the exchanges in Nebraska.*

It is by the Commission further ordered, That the Norton County Cooperative Telephone Company and the other companies named in this order be permitted to file with this Commission a schedule of rates for toll service on calls extending beyond the limits of the so-called free service permitted in this order; which schedule of rates shall in no case exceed the standard toll rates now in effect in the State of Kansas.

March 2, 1922.*

In re APPLICATION OF THE FARMERS MUTUAL TELEPHONE COMPANY FOR AUTHORITY TO REDUCE ITS RATES FOR SERVICE.

Docket No. 4612.

Decided March 16, 1922.

Reduction in Rates Authorized.

ORDER.

Now on this sixteenth day of March, 1922, comes on for consideration and order the application of the Farmers Mutual Telephone Company, of Beattie, Kansas, for permission to reduce for the period of one year the rates now being charged for telephone service at its exchange at Beattie, Kansas, and vicinity; and the Commission, being fully advised in the premises, finds that the following is a fair and reasonable schedule of rates to be charged for telephone service by said Farmers Mutual Telephone Company, at Beattie, Kansas:

	<i>Per Month</i>
Telephones, owned and maintained by subscribers.....	\$0 85
Telephones, equipment owned and maintained by company...	1 25

It is, therefore, by the Commission ordered, That the Farmers Mutual Telephone Company be, and it is hereby,

* On March 17, 1922, increased rates were authorized *In re Hanover Telephone Company* (No. 4362).

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authorized to file and put into effect as of April 1, 1922, a schedule of rates for telephone service at its Beattie, Kansas, exchange as follows, to-wit:

	<i>Per Month</i>
Telephones, owned and maintained by subscribers.....	\$0 85
Telephones, equipment owned and maintained by company...	1 25

It is further by the Commission ordered, That the rates herein authorized shall be in force and effect for the period of one year from April 1, 1922; and that the Commission retain jurisdiction hereof for the purpose of issuing a further order herein at the expiration of said time.

March 16, 1922.

In re APPLICATION OF THE UNITED TELEPHONE COMPANY FOR
A CERTIFICATE RELATING TO A PROPOSED ISSUE OF PRE-
ferred STOCK.

Docket No. 4575.

Decided March 18, 1922.

Issue of Preferred Stock Authorized.

CERTIFICATE.

Be it remembered, that on this eighteenth day of March, 1922, came on to be heard the application of the United Telephone Company, filed the fourteenth day of February, 1922, for a certificate relating to a proposed issue of its 7 per cent. preferred stock in the amount of \$55,400. The applicant presented its proofs and testimony in support of its application, and the Commission being fully advised in the premises finds that a certificate as required by law, as hereinafter set forth, should be issued herein.

It is, therefore, by the Commission certified:

1. That the amount of stock proposed to be issued by the United Telephone Company is \$55,400, described as follows: 554 shares of a par value of \$100, bearing 7 per cent. cumulative interest.

2. That the purpose for which said securities are to be issued is to reimburse the company's cash account for expenditures for additions and betterments to its exchange plant during the period November 1, 1921, to December 31, 1921, and to its toll plant during the period November 1, 1921, to December 31, 1921, as per detailed exhibits attached to application.

3. That the terms upon which said stock is to be issued are at par value for cash.

4. That the application herein is in due and proper form as by law required, and that the statements contained in said application, so far as by law required to be therein contained, have been ascertained to be true.

March 18, 1922.

MICHIGAN.

Public Utilities Commission.

**CITIZENS MUTUAL TELEPHONE COMPANY OF VANTOWN v.
PEOPLES MUTUAL TELEPHONE COMPANY OF WEBBER-
VILLE.**

T-367.

Decided February 7, 1922.

**Invasion of Territory Found — Priority of Rights in Occupied Territory
Recognized — Removal of Equipment Ordered.**

ORDER.

This matter having been brought on to be heard upon application of the Citizens Mutual Telephone Company of Vantown praying for investigation of the construction of the telephone line by the Peoples Mutual Telephone Company of Webberville which parallels the lines of the Citizens Mutual Telephone Company of Vantown one mile west on the town line between section 32, Leroy Township, and section 5, White Oak Township, and three-quarters of a mile north between sections 31 and 32, Leroy Township, Ingham County, Michigan; and it appearing:

(a) That the Citizens Mutual Telephone Company of Vantown did organize on February 15, 1901, a telephone company and build an exchange at Vantown and construct telephone lines in White Oak Township, Ingham County, Michigan, and on January 24, 1906, did incorporate under Act 129 of the Public Acts of 1883 with a capital stock of \$6,000;

(b) That the Peoples Mutual Telephone Company of Webberville did organize in 1902 a telephone company and build an exchange at Webberville, Leroy Township, and construct telephone lines in Leroy Township, and that during the same year they did construct 5 lines that connect Webberville and Vantown, and that on December 12,

1904, they did incorporate under Act 129 of the Public Acts of 1883 with a capital stock of \$6,000;

(c) That in 1904 a party by the name of Mr. Stowe living a half mile west of Vantown desired Webberville service, and by some arrangement with the Citizens Mutual Telephone Company of Vantown did purchase wire and string it on the Citizens Mutual Telephone Company's poles and connect it on the main circuit of the Peoples Mutual Telephone Company of Webberville between Webberville and Vantown, and upon completion of this work this line then became the property of the Peoples Mutual Telephone Company of Webberville;

(d) That in August, 1921, True Martin, Mat Jones, R. Crane, D. Thorburn, Ed Marmdorf and Mr. Wilhelm, all subscribers of the Citizens Mutual Telephone Company of Vantown and living one mile west and three-quarters mile north of Vantown, desiring the Peoples Mutual Telephone Company of Webberville service did make application to the said company for service, and that in August, 1921, the Peoples Mutual Telephone Company of Webberville without obtaining permission from the Michigan Public Utilities Commission did construct a new telephone line paralleling the lines of the Citizens Mutual Telephone Company of Vantown, and is now rendering service to these 6 subscribers of the Citizens Mutual Telephone Company of Vantown;

(e) That the Citizens Mutual Telephone Company of Vantown was organized and did construct telephone lines in this vicinity one year before the Peoples Mutual Telephone Company of Webberville was organized. This now gives them priority rights over the Peoples Mutual Telephone Company of Webberville, and the Peoples Mutual Telephone Company of Webberville, without obtaining a certificate of convenience and necessity authorizing it so to do, extended these telephone lines and facilities and paralleled the lines of the Citizens Mutual Telephone Company of Vantown and took 6 of their subscribers.

Now, therefore, it is hereby ordered by the Michigan Public Utilities Commission:

1. That the Peoples Mutual Telephone Company of Webberville be, and it is hereby, required to remove its telephone poles, lines and equipment for one mile west of Vantown on the town line between section 32, Leroy Township, and section 5, White Oak Township, Ingham County, Michigan, and three-quarters of a mile north between sections 31 and 32, Leroy Township, Ingham County, Michigan.

2. That the Citizens Mutual Telephone Company of Vantown hold facilities in readiness to furnish reasonable and adequate telephone service to any and all persons in the territory in dispute.

February 7, 1922.

In re APPLICATION OF THE LACEY MUTUAL TELEPHONE COMPANY FOR AUTHORITY TO INCREASE ITS RATES, RENTALS AND CHARGES.

T-104.

Decided February 9, 1922.

Increase in Rates Authorized — Discrimination in Rates Between Stockholders and Non-Stockholders Eliminated.

ORDER.

Application having been made by the above-named telephone Company for leave to increase its rates, rentals and charges to be charged and collected from its subscribers served at and through its exchange at Lacey, Michigan, and the same having been brought on to be heard, and it appearing:

(a) That due notice of the intention of said applicant to apply for said increased rates, rentals and charges was heretofore given to all persons interested by publication of said notice, which notice contained the rates, rentals and

charges proposed to be applied for, in the Hastings Banner, a newspaper of general circulation in the territory served by the telephone lines and facilities of said applicant;

(b) That notice was also given of the date of hearing upon said application, to Elwin Nash, supervisor of Assyria Township, Arthur B. Glasgow, supervisor of Baltimore Township, Nelson Willison, supervisor of Johnstown Township, and R. E. Swift, supervisor of Maple Grove Township;

And said telephone company having appeared by its president and manager and no one having appeared in opposition thereto, and it appearing that the Lacey Mutual Telephone Company is a corporation with an authorized capital of \$6,000, maintaining a telephone exchange at Lacey, Michigan; that, though organized under the general law for the organization of telephone companies, it has been operated on a cooperative plan; that it has lines originally built largely by contributions of labor and material by the stockholders; that it has never paid a dividend upon its capital stock; that it has no depreciation reserve to replace worn-out property which must be superseded by other property at increased cost; that most of its plant has been installed for about fifteen years and will depreciate more rapidly in the future than in the past; that its income is not sufficient to pay operating expenses, maintenance, repairs and taxes without considering either depreciation or return, and that its last year's operation has resulted in a deficit; that it owns substantial sums of borrowed money; that it is charged with the duty of furnishing service to all who apply therefor in the territory served by it, whether stockholders or not; that its capital has, to some extent, been absorbed in giving service and making replacements; and that there is no reason why stockholders should continue to contribute to pay for telephone service rendered to those who are not stockholders, at less than cost, but that all persons should pay upon substantially the same basis and that the rates, rentals and charges applied for are justified as hereinafter stated.

Now, therefore, it is hereby ordered by the Michigan Public Utilities Commission:

1. That said telephone company be, and it is hereby, authorized and empowered to charge to and collect from its subscribers served at and through its exchange at Lacey, Michigan, the following rates, rentals and charges, that is to say:

	<i>Per Year</i>
To persons who furnish and maintain their telephone.....	\$15 00
For telephone service, including furnishing telephones.....	18 00

2. The rates, rentals and charges herein authorized are to be paid quarterly in advance, and in case said telephone rentals are not paid within twenty days after the presentation of the bill therefor to the subscriber, said telephone company is authorized to charge a penalty of 10 per cent. of the amount of said bill.

3. Telephone toll rates shall likewise be payable quarterly during the quarter following the date on which they accrue.

4. No discrimination either in rates or service shall be permitted between subscribers who are stockholders and subscribers who are not stockholders.

5. The rates, rentals and charges herein authorized are based upon the rendition of reasonably adequate telephone service, and in case said applicant shall neglect, fail or refuse to render reasonably adequate telephone service, the Commission retains the right to reduce its rates, either with or without notice.

6. Immediately upon receipt of a certified copy of this order, applicant shall file with the Commission a copy of all rates, rentals and charges, and rules and conditions of service in force, and shall have a copy of the same on file and open to the inspection of the public at its principal office and place of business.

February 9, 1922.*

* On February 28, 1922, an increase in rates was authorized *In re Cambria Rural Telephone Company* (T-381).

In re APPLICATION OF THE ONSTED TELEPHONE ASSOCIATION
FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES
AT ITS ONSTED EXCHANGE.

T-284.

Decided February 25, 1922.

Rates as Requested Found Unlawful and Discriminatory and Denied.

OPINION.

The application in this case is to fix telephone rates for said association as follows:

Members of corporation owning telephone, \$12.00 a year.

Members of corporation renting a telephone, present rate \$15.00; new rate \$14.00.

Non-members of corporation owning telephone, present rate \$12.00 a year; increased rate \$14.00.

Non-members of corporation renting telephone, present rate \$15.00; new rate \$16.00.

Private line rate in village of Onsted, present rate \$18.00, increased rate \$6.00 over class rate.

By Section 1 of Act 206, Public Acts of 1913,

"All persons, corporations and associations operating telephone lines or exchanges, doing a telephone business within the State of Michigan, are hereby declared to be common carriers."

By Section 2 of Act 206, Public Acts of 1913, the Michigan Railroad Commission is given control over all telephones, telephone lines and telephone companies within the State. By Section 3 of Act 206, Public Acts of 1913, the Commission

"shall have power to make, alter, amend or abolish any rate or charge for any service."

By Section 10 of Act 206, Public Acts of 1913, persons, copartnerships and corporations engaged in the telephone business are forbidden to increase any rates or charges without notice and a hearing thereon and an order from

the Commission. By Section 4 of Act 206, Public Acts of 1913, telephone companies are forbidden to discriminate in rates or service in favor of or against any person, firm or corporation, either directly or indirectly. It is unlawful to charge or collect for rendering, furnishing or performing a like contemporaneous service, any greater or lesser rate from any person, firm or corporation than from another similarly situated, to whom like service is rendered.

In *Michigan State Telephone Company v. Michigan Railroad Commission*, 193 Michigan 515, it is said:

“The relations of the telephone company in this State are not simply with its own subscribers, but with the public generally, and it is forbidden by law to make any discrimination between persons.”

It may be claimed that applicant is a mutual telephone company and that for some reason it is not subject to the general law in relation to discrimination.

In *Reading Central Telephone Company v. Fayette Rural Telephone Company*,* M. R. C. volume 3, number 4, page 5, it is said:

“The phrase ‘doing a telephone business’ excludes only such facilities as are entirely private in character.”

This case holds that mutual telephone companies are engaged in a public business and subject to public regulation; and this also was the holding in *Risley v. Redstone Independent Telephone Company*,† P. U. R. 1920-C, 878. In *Shoemaker v. The Chesapeake and Potomac Telephone Company*,‡ 20 I. C. C. 614, the Interstate Commerce Commission said;

“Nothing but a difference in the service rendered or in the facilities furnished will justify any difference in the charges exacted.”

* See Commission Leaflet No. 39, p. 833.

† See Commission Leaflet No. 102, p. 156.

‡ See Commission Leaflet No. 1, p. 25.

In *Rentchler et al. v. Rural Telephone Company of Waterloo*,* 3 C. T. C. 892, it is said:

"It is the duty of the company to provide one rate for all subscribers, both stockholding and non-stockholding, who receive like contemporaneous service, dividends to be paid in the regular way from the surplus earnings of the company."

In *Jones v. Cass County Home Telephone Company*,† 3 C. T. C. 900, it is said:

"It cannot lawfully provide discounts for its friends and impose penalties upon those who incur its displeasure."

In fixing telephone rates, the court has repeatedly held that the power of the Commission was not limited solely to the question of the cost of the service, but that it might make use of its power to regulate rates for the purpose of regulating the service. In *Jones v. Cass County Home Telephone Company*,† 3 C. T. C. 900, it is said:

"Defendant has a legal obligation to supply its service without discrimination to all within the territory it seeks to serve. This does not mean that service must be supplied to all subscribers at the same cost and under the same conditions, but it does mean that the cost and conditions imposed shall be the same to all who receive like contemporaneous service."

Coming now to the by-laws of the corporation which were introduced as Exhibit 1, such by-laws provide:

"The annual switch dues for service on the lines of the association shall be \$12.00 a year for members of the association, when such members own their own telephone. Said switch dues are payable semi-annually on the first day of March and the first day of September of each year. Parties not members of the association, but who own telephone, desiring service over the lines of the association may have such service by paying annual switch fees of \$14.00, payable semi-annually on the first days of March and September of each year. Members of the association who do not own their own telephone may rent a telephone from the company by paying an annual rental of \$14.00, the same to be paid semi-annually the first days of March and September of each year. Parties not members of the association who do not own their own telephone may

* See Commission Leaflet No. 2, p. 29.

† See Commission Leaflet No. 9, p. 14.

rent a telephone from the company by paying an annual rental of \$16.00, payable semi-annually on the first days of March and September of each year."

An examination of by-laws, numbers one and two, indicates that where the subscriber owns his own telephone, there is a discrimination between stockholders or members of the company and those who are not stockholders or members of the company, of \$2.00 a year for like contemporaneous telephone service, and therefore these by-laws are unlawful and provide for a violation of the law, which, by the statute, Act 206, Public Acts of 1913, is made a misdemeanor and punishable as such. An examination of by-laws, numbers three and four, shows that they provide for a discrimination in rate of \$2.00 a year between members of the association and parties not members of the association, although both such parties are furnished like contemporaneous service, and therefore these by-laws are unlawful and in violation of the statute.

Section 5 of the second Article 1 of the by-laws provides:

"In cases where the subscriber does not so notify the secretary, but does not pay his or her switch fees, then the manager or lineman shall be instructed by the secretary to cut such party off the line at the end of the sixty-day period * * *. but in no case shall this sixty-day period be granted to any one not a member of the association."

In other words, this by-law provides for a discrimination in the service which, under some circumstances, may be rendered to those who are stockholders and members of the association and those who are not members, and is therefore unlawful.

Section 6 of the by-laws provides:

"The fee for being reconnected on the lines of the association after having been disconnected voluntarily or involuntarily, shall be \$1.00,
• • •"

Section 8 of the by-laws provides:

"In case where party is cut from the lines for non-payment of dues, this additional fee of 25 cents shall be added to the fees due, and charged against subscriber, to be paid before the subscriber can again be connected on the lines of the company."

Both these provisions of the by-laws are in violation of the order* of the Commission under date of May 12, 1920, which provides:

"The Michigan Public Utilities Commission, on its own motion, hereby orders and establishes for all telephone companies within the State of Michigan the following charges:

Installation charge for installing telephone.....	\$3 50
For moving telephone from one location to another on the same premises	3 00
To cover directory, account, circuit and switchboard expenses in cases where service is established by the use of instrumentalities already in place on the subscriber's premises...	1 50"

Section 10 of second Article 1 of the by-laws provides for charging subscribers in the village of Onsted desiring one-party line service, \$6.00 above their annual class rate.

I do not know whether these by-laws are in force or not at the present time, but if the service is being charged upon this basis at the present time, it is being charged in violation of the order† of April 20, 1920, which fixes telephone rates for the Onsted Telephone Association, which rates have not been changed by any subsequent order of the Commission.

The application filed in this case shows, according to the printed notice, that it contemplates a discrimination between those who are stockholders and those who are not stockholders in the corporation. This Commission has no authority to issue an order in the premises authorizing applicant to put in force discriminatory rates in violation of the statute which measures the authority, both of the telephone company and of this Commission. The application, therefore, will be denied, without prejudice to applicant.

ORDER.

Applicant having applied to this Commission for leave to increase, decrease and adjust its telephone rates and charges to be charged to and collected from its subscribers

* See Commission Leaflet No. 103, p. 567.

† Noted in Commission Leaflet No. 103, p. 550.

served at and through its Onsted exchange, and having given notice by publication in the Onsted News to all persons interested, of its intention so to do, and it appearing to this Commission that the rates, rentals and charges applied for are not justified, but are discriminatory and in violation of the statute;

Now, therefore, it is hereby ordered by the Michigan Public Utilities Commission, That said application be, and the same is hereby, dismissed, without prejudice to the right of said applicant to apply for such rates, rentals and charges as shall be warranted by the facts and shall not violate the statute.

February 25, 1922.

In re APPLICATION OF THE LENAWEE COUNTY TELEPHONE
COMPANY FOR AUTHORITY TO ISSUE \$100,000 OF ITS
STOCK TO ITS STOCKHOLDERS.

D-327.

Decided February 28, 1922.

**Permission to Capitalize Difference Between Actual Value and Amount
Paid for Property Granted — Issue of Stock to Approximate
Fair Value Authorized — Stock Dividend Authorized.**

The company requested permission to issue \$100,000, par value, of its already authorized capital stock, and that it be permitted to declare a dividend of like amount payable in stock for ratable distribution to its stockholders.

The company stated that it was incorporated in 1910 with an authorized capital stock of \$250,000, par value; that \$100,000, par value, of said stock had been issued in payment for properties purchased from the Adrian Telephone Company and the Michigan State Telephone Company in 1910. The company claimed that at the time of the purchase in 1910 the value of the properties purchased was greatly in excess of the amount paid therefor, and that the excess constituted a paid-in surplus for which it was entitled to issue stock; that since said date it had been authorized to issue capital stock in an additional amount of \$50,000 to pay for additions, improvements and betterments to its property; that its total outstanding capital stock was \$150,000; that the present value of its prop-

erty, including additions, was \$274,488.74; that after the outstanding stock and deductions since 1916 were subtracted there remained undivided physical assets over and above stock liability of \$116,000.03.

The Commission found that applicant had outstanding capital stock in the amount of \$150,000, \$100,000 of which was issued in payment for the properties of the Adrian Telephone Company and the Michigan State Telephone Company located in Lenawee County; that the present fair value of applicant's property was \$247,000, which value was arrived at by considering the book cost of the property which was shown to be \$281,189, the engineer's estimated original cost of \$244,396, the estimated reproduction cost new of \$555,273, and the estimated reproduction cost new less depreciation, of \$441,981.

The Commission further found from statements made by its auditors that the additions made to the plant from 1910 to the time of the audit, amounted to \$89,068.41, of which amount \$50,000 had been paid for by the issue of capital stock, leaving earnings of the company invested in capital assets and not heretofore capitalized in the amount of \$39,068.41; that it was therefore apparent that the value of the property taken over by the company in 1910 must have been considerably in excess of the \$100,000 paid therefor, and that if a fair appraisal of the property had been made at the time of purchase, the incorporators would have been entitled to a stock issue much in excess of the \$100,000 of stock issued in payment for the property; that the company had no outstanding bonds, and that the value of the property exceeded the outstanding capital stock by \$97,000.

Held: That the corporation was not bound at the present time by the amount at which it took the property over in 1910, and should be permitted to issue to its stockholders in proper proportions a sufficient amount of stock so that the amount of stock outstanding would approximate the fair value of the property;

That based upon the conclusion that the property put into the corporation at the time of its organization was worth more than the \$100,000 paid therefor, and also upon the fact that approximately \$40,000 of earnings since 1910 had been reinvested in the plant, applicant should be authorized to issue \$90,000 of its common capital stock to be distributed among its present stockholders pro rata, which would give to each stockholder an amount of stock equal to 60 per cent. of his present holdings.

OPINION.

In this matter the Lenawee County Telephone Company filed its petition on September 1, 1920, averring that it is incorporated under the Michigan laws providing for the incorporation of telephone companies, and that at the time it was organized, the physical properties taken

over by it included those of two then existing corporations, that is to say, the property of the Michigan State Telephone Company which was located within Lenawee County (subject to certain minor exceptions), and the property of the Adrian Telephone Company located within Lenawee County. Paragraphs 3, 4 and 5 of the petition filed as aforesaid read as follows:

"3. The principal object of the incorporators in bringing about the unification of the physical properties through the Lenawee County Telephone Company was to better serve the public and to meet the demand for telephone service within said county, present and future, in a most efficient and economical manner. At the time of the organization, the intrinsic value of the consolidated properties was not primarily considered. No inventory was taken and the stock issued was known to cover but part of the cost of the property which was at that time over \$200,000 as shown by the companies' books. As a result, while the authorized capital of your petitioner at the time of its organization was \$250,000 of par of common capital stock, the physical properties were taken over against common stock issued only to the par amount of \$100,000.

In 1911, against additional capital investment expended in the enlargement of the physical facilities of petitioner, \$50,000 of common capital stock was authorized by the Railroad Commission and issued by the company. Thus, there remains authorized, but unissued, from the capital stock as originally provided, \$100,000 of par.

In 1916, the directors and officers of your petitioner, by and with the full cognizance and consent of each and every stockholder of record, caused a fair and just appraisal and inventory to be made of the physical properties of the Lenawee County Telephone Company, this petitioner, and attached hereto, in the form of Exhibit A is a copy of such appraisal and inventory.

4. Your petitioner shows by such appraisal that the fair and proper value of its physical properties then actually employed in the rendition of telephone service to the public (after making all deductions and allowances for depreciation and such other charges as ought fairly to be taken into account) is \$260,022.63; and your petitioner believes that, on the facts and under the law, it is entitled to earn a just and reasonable return upon such capital actually invested and employed in its corporate operations.

5. Deducting from the aforesaid valuation of assets, namely, \$230,022.63, plus additions since to January 1, 1920, of \$14,466.11, the amount of outstanding common stock, \$150,000, less deduction since 1916 of \$8,488.71, there remains surplus, or undivided physical assets of your petitioner, over and above its stock liability, \$116,000.03.

Petitioner sets up that, under these facts, were this corporation not a public utility it would have the undoubted right, by and with the consent of its stockholders and directors, to cause all and singular the real capital employed in its business to be represented by capital stock of an equivalent par amount, and that such dividend could be made payable in cash or in stock according to its judgment. Petitioner, however, with the primary purpose of serving the public has no disposition in any way to withdraw assets from the active operation of its business; but, at the same time, feels that justice to its shareholders entitles them to receive, by way of dividend, their share of these assets, but in such a way as not to withdraw from active use any of the assets and property of the company now dedicated to public service. Accordingly, subject to the approval of this Commission, petitioner proposes to declare a dividend of \$100,000, payable in common capital stock of the company, in lieu of an equivalent declaration of cash dividend, and to charge such amount of dividend against assets of equivalent valuation; so that when said dividend, if permitted by this Commission, shall have been declared and paid, the outstanding capital stock of your petitioner will be \$250,000 against physical assets of the fair valuation of \$266,000, leaving surplus physical assets of \$16,000, computed according to the inventory and appraisal submitted as a part of this application, namely, Exhibit A with additions as hereinbefore referred to.

Wherefore, your petitioner prays that this Commission enter an order authorizing and empowering the Lenawee County Telephone Company to issue \$100,000 of par of its presently authorized common capital stock, and that it be permitted to declare a dividend of like amount, payable in said stock for ratable distribution to its shareholders."

At the same time the above-mentioned petition asking for the issuance of \$100,000 of capital stock was filed, the Lenawee County Telephone Company also filed in Case T-91,* petitions for an increase of telephone rates to be charged by the utility at its Adrian, Hudson, Clinton and Palmyra exchanges, and for the abandonment of its telephone exchange at Weston.

All of said matters were heard before the Commission in a preliminary way on September 15, 1920, at which time the Commission announced that an appraisal of the property and an audit of the books of the company should be made before the capitalization matter or the rate

* See Commission Leaflet No. 124, p. 992.

matter should be decided. The appraisal and audit were deferred for some time at the request of the telephone company, but on April 14, 1921, the Commission made an order in this case reciting the facts and directing the making of the audit and appraisal under the provisions of Act No. 144 of 1909, as amended and now in force, and of Act No. 47 of 1921. All interested municipalities have been properly notified of all hearings and of all other proceedings during the pendency of these petitions. The audit and the appraisal were both made for use in the rate matter as well as in this capitalization matter.

This petition presents to the Commission a very unusual situation. The records of this file show that on July 15, 1910, the Lenawee County Telephone Company filed a petition with the Michigan Railroad Commission averring that it proposed to incorporate, with an authorized capital stock of \$250,000, the same to consist of 2,500 shares of \$100 each; that \$100,000 of the capital stock had been in good faith subscribed, to be paid in cash; and that it would be used in purchasing the property of the Adrian Telephone Company in Lenawee County and of the Michigan State Telephone Company in Lenawee County. Said petition averred that the corporation desired to issue \$100,000 of stock for the purpose of acquiring the property of both of said corporations described in its petition, and asked that it be permitted to sell the other \$150,000 of authorized capital stock. Paragraph 6 of the Lenawee County Telephone Company's petition filed with the Michigan Railroad Commission on July 15, 1910, reads as follows:

"VI. The financial condition of the applicant is as follows: It has become the purchaser of, and is the owner of the Adrian Telephone Company's property in Lenawee County, described in Exhibit B, and also of the property of the Michigan State Telephone Company in Lenawee County, described in Exhibit C, hereto attached; these properties are worth \$100,000. Applicant owes no debts."

To the said application filed with the Michigan Railroad Commission on July 15, 1910, was annexed proposed

articles of association of the Lenawee County Telephone Company, under Act No. 129 of 1883. The petitioner in that matter filed an affidavit of Charles S. Park, averring that the property of the Adrian Telephone Company described in Exhibit B, and of the Michigan State Telephone Company described in Exhibit C was worth at least \$100,000. It would appear from the files of the Michigan Railroad Commission that the Lenawee County Telephone Company delivered to the Michigan Railroad Commission at about the time it filed its application in 1910, a rather rough inventory of the property of the Michigan State Telephone Company it proposed to take over. This inventory covers only three and one-half small sheets of paper and describes the property only in a most general way. It would also appear that at the same time the said Lenawee County Telephone Company delivered to the Michigan Railroad Commission a rather rough inventory of the property of the Adrian Telephone Company it proposed to take over. This inventory covers only two small sheets of paper and describes said property in the most general way. It further appears that those inventories were by the Railroad Commission on July 20, 1910, sent to Mr. W. H. Zimmerman, an engineer, 903 First National Bank Building, Chicago, with the request that the engineer give to the Commission the approximate value of the plants and that he return it to the Commission on Friday of the same week. It appears that the said inventories were sent to the engineer on July 20, 1910, and that on July 23, 1910, the third day thereafter, he returned the inventories to the Railroad Commission with amounts carried out opposite the items of property, the amounts in the case of the Adrian Telephone Company aggregating \$78,963, and the amounts in the case of the Michigan State Telephone Company aggregating \$65,365. There is nothing to indicate that the engineer had any knowledge of the property, and this Commission would not feel that sums found by the engineer under such circumstances amounted to much as indications of what the property was really worth. It

would appear that the property appraised as aforesaid was the same property which the company proposed to put in for \$100,000 of stock.

The files in this matter indicate that on July 27, 1910, the Michigan Railroad Commission made an order permitting the Lenawee County Telephone Company to issue and sell \$150,000 of its capital stock, \$100,000 of the same to be used to acquire the properties of the Adrian Telephone Company and the Michigan State Telephone Company in Lenawee County, the other \$50,000 to be sold to provide for additions, extensions, betterments and improvements, the remaining \$100,000 of the authorized capital not to be issued or sold until the further order of the Commission. It will be noted that this order of the Michigan Railroad Commission was dated July 27, 1910. The Commission in making it appeared to be acting under the provisions of Act No. 144 of the Public Acts of 1909 only. It appears, however, that the real result of the order was, not only to authorize the issuance of the stock asked, but also to effect the consolidation of the properties of two theretofore competing telephone corporations. It seems that the statutory authority relied upon by the Lenawee County Telephone Company as its justification for merging the two competing telephone corporations was Act No. 112 of the Public Acts of Michigan for the year 1889, entitled,

"An Act to authorize any corporation organized under the laws of this State, to sell its property, franchise rights and privileges to any other corporation organized under the same or any similar laws of this State for the same corporate purpose."

After the Railroad Commission made its order of date July 27, 1910, permitting the organization of the Lenawee County Telephone Company and allowing it to issue \$100,000 of its capital stock for the purpose of acquiring the property and facilities of the Adrian Telephone Company and the Michigan State Telephone Company in Lenawee County, the Attorney-General of the State began *quo warranto* proceedings in the Supreme Court, alleging that the incorporation of the Lenawee County Telephone

Company for the purpose of taking over the two competing telephone companies was in violation of the laws of the State, and particularly of Act No. 255 of the Public Acts of 1899, Act No. 329 of the Public Acts of 1905, and of Act No. 225 of the Public Acts of 1889. The *quo warranto* proceedings were begun in September, 1910, but before the trial of the matter, the legislature of the State at its 1911 session enacted the Giles Law, so-called, being Act No. 138 of 1911, which Act declared telephone lines and telephone companies in Michigan to be common carriers, generally provided for the regulation of the telephone business in the State, and permitted the combination of telephone plants in the same localities.

After Act No. 138 of 1911 went into effect, and on August 24, 1911, the Lenawee County Telephone Company filed a petition with the Michigan Railroad Commission praying that the order of the Commission of date July 27, 1910, which order permitted the consolidation of the two properties and allowed the issuance of \$100,000 of capital stock for their acquirement, be ratified, confirmed and approved, and on October 4, 1911, the Michigan Railroad Commission entered an order ratifying, approving and confirming its order of July 27, 1910. The order of date October 4, 1911, reads as follows:

“ STATE OF MICHIGAN.

BEFORE THE MICHIGAN RAILROAD COMMISSION.

At a session of the Michigan Railroad Commission held at its offices in the city of Lansing on the fourth day of October, 1911.

<p>In the matter of the application of the Lenawee County Telephone Company for ratification and confirmation of the order of the Michigan Railroad Commission made July 27, 1910, approving purchase of properties of the Michigan State Telephone Company and Adrian Telephone Company.</p>	<p>} D-3227.</p>
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Application was filed in the above matter on the twenty-fourth day of August, 1911, from which said application and hearing had thereon it appears,

(1) That the order of this Commission, made July 27, 1910, the issue and sale of stock of said Lenawee County Telephone Company and the use of the proceeds thereof for the acquisition of the property of the Michigan State Telephone Company and Adrian Telephone Company in the county of Lenawee, including the city of Adrian, was authorized and directed, and that in pursuance thereof and in accordance therewith the property aforesaid of the said companies was sold and conveyed to said Lenawee County Telephone Company, and thereby the said property was consolidated and merged into said last-named company;

(2) And it further appearing that said sale, consolidation and merger is for the best interests of the public, and that there is a public necessity therefor, and that the same should be approved by this Commission under the power and authority in it vested by Act No. 138 of the Public Acts of the Legislature of the State of Michigan for the year 1911, under the provisions thereof and regulations therein prescribed;

Now, therefore, by virtue of the power and authority in said Commission vested,

It is hereby ordered, That said sale, consolidation and merger by the Michigan State Telephone Company and Adrian Telephone Company of their properties aforesaid in the county of Lenawee, including the city of Adrian, and the conveyance of said property to said Lenawee County Telephone Company, and the said order of this Commission made July 27, 1910, and all acts, matters and things done in pursuance thereof and in accordance therewith, and each and every of the same, be, and hereby are, ratified, approved and confirmed in accordance with and subject to the terms, conditions and provisions of said Act No. 138.

C. L. GLASGOW,
Chairman.

Commissioner.

LAWTON T. HEMANS,
Commissioner."

It is, therefore, seen that the Michigan Railroad Commission by two separate orders permitted the putting in of the property of the Adrian Telephone Company and the Michigan State Telephone Company in Lenawee County into the Lenawee County Telephone Company, the payment therefor to be made by \$100,000 in par amount of the capital stock of the Lenawee County Telephone Company. It is true, however, when the matter was last before the Railroad Commission no investigation seems to have been made as to the value of the property, and the investi-

gation made as to the value of the property in 1910 appears to have been most cursory. The interested companies and the Lenawee County Telephone Company were apparently satisfied with \$100,000 of stock of the Lenawee County Telephone Company as representing the property turned in by both companies. The Railroad Commission without very much investigation satisfied itself that the property turned in had a fair value for capitalization purposes of \$100,000 and made the order permitting it. No very extended investigation seems to have been made by anybody as to just what the value of the property really was.

It appears, however, that on November 6, 1916, the Lenawee County Telephone Company filed a petition with the Michigan Railroad Commission for leave to issue \$75,000 of its \$100,000 of unissued authorized capital stock. In that petition the Lenawee County Telephone Company averred that the principal object of the incorporators of the Lenawee County Telephone Company in 1910 was to bring about the unification of the physical properties of the two telephone companies absorbed, to better serve the public and meet the demand for telephone service in Lenawee County in the most efficient and economical manner possible. In that petition filed November 6, 1916, the Lenawee County Telephone Company said among other things:

"At the time of the organization the intrinsic value of the consolidated properties was not primarily considered, but they were taken in on the bases of valuations which were known to the incorporators, and at the time explained to the Commission, to be most conservative and, in fact, at a far lesser value than they actually possessed."

Said petition further averred that in 1911, \$50,000 additional capital stock was sold. That petition further averred that the Lenawee County Telephone Company had recently, with the consent of all of its stockholders, caused an inventory and appraisal of its physical properties to be made, and that after making all deductions and allowances for depreciation and such other charges as ought to

be taken into account, the fair value of the property of the Lenawee County Telephone Company amounted to \$260,022.63. Paragraph 5 of said petition reads as follows:

"5. Deducting from the aforesaid valuation of assets, namely, \$260,022.63, the amount of outstanding common stock, \$150,000, there remains surplus, or undivided physical assets of your petitioner, over and above its stock liability \$110,022.63.

Petitioner has been advised by counsel that, under these facts, were this corporation not a public utility it would have the undoubted right, by and with the consent of its stockholders and directors, to cause all and singular the real capital employed in its business to be represented by capital stock of an equivalent par amount, and that such dividend could be made payable in cash or in stock according to its judgment. Petitioner, however, with the primary purpose of serving the public has no disposition in any way to withdraw assets from the active operation of its business; but, at the same time, feels that justice to its shareholders entitles them to receive, by way of dividend, their share of these assets, but in such a way as not to withdraw from active use any of the assets and property of the company now dedicated to public service. Accordingly, subject to the approval of this Commission, petitioner proposes to declare a dividend of \$75,000, payable in common capital stock of the company, in lieu of an equivalent declaration of cash dividend, and to charge such amount of dividend against assets of equivalent valuation; so that when said dividend, if permitted by this Commission, shall have been declared and paid, the outstanding capital stock of your petitioner will be \$225,000 against physical assets of the fair valuation of \$260,022.63, leaving surplus physical assets of \$35,022.63, computed according to the inventory and appraisal submitted as a part of this application, namely, Exhibit A hereinbefore referred to.

Wherefore, your petitioner prays that this Commission enter an order authorizing and empowering the Lenawee County Telephone Company to issue \$75,000 of par of its presently authorized common capital stock, and that it be permitted to declare a dividend of like amount, payable in said stock, for ratable distribution to its shareholders."

It thus appears that in 1916, the Lenawee County Telephone Company had reached the conclusion that its stockholders ought to be issued \$75,000 of the stock of the Lenawee County Telephone Company without payment by the stockholders to the corporation of any additional moneys on the ground that the properties that went into the Lenawee County Telephone Company in the first place

should have gone into the said corporation at a value of \$175,000 instead of going in as they did at a value of \$100,000.

The petition filed November 6, 1916, was heard before the Michigan Railroad Commission on January 31, 1917, all of the Commissioners, viz: Commissioners Glasgow, Cunningham and Keiser being present. The telephone company, through its officers, explained that it was not asking for the issuance of the \$75,000 of stock on the theory that said \$75,000 consisted of earnings of the Lenawee County Telephone Company subsequent to its organization invested in capital assets but not capitalized. It appeared by the testimony taken at that hearing that the Lenawee County Telephone Company had paid dividends from the time of its organization; that it had stockholders to the number of some 80 or 90; that it had invested some of its earnings subsequent to 1910 in telephone property and facilities, but that it did not claim to have invested anything like \$75,000. It appeared to be the idea of the persons representing the telephone company that possibly \$30,000 of earnings had been invested in the property of the company between 1910 and 1916. Mr. Hunt, president of the company, stated:

"Of course, we have asked for a stock dividend. It is really not a stock dividend, it is an issue of stock against the property which should have been issued upon the stock."

Mr. Hunt claimed that the Michigan State property that went into the Lenawee County Telephone Company inventoried in 1910 something like \$125,000, and that the Adrian Telephone Company property could have been fairly appraised at from \$87,000 to \$90,000. No order was made upon this investigation, but from the comments of the Commissioners it appears that they were ready to deny it. One of the Commissioners said:

"There is apparently no legal basis or precedent for granting the order."

and at the end of the hearing the representatives of the telephone company formally withdrew the application. It appears quite conclusively by a perusal of the record of the hearing that the Railroad Commission was of opinion that the Lenawee County Telephone Company was absolutely and finally bound by the value it had placed upon the property that went into the Lenawee County Telephone Company in 1910; that when that property was put into the Lenawee County Telephone Company in consideration of the issuance to the stockholders of \$100,000 of stock of the Lenawee County Telephone Company, no change could afterwards be made, and that even though it should be conceded in 1916, six years after the organization of the Lenawee County Telephone Company, that the property that was put in in 1910 was at that time fairly worth \$175,000, yet the Railroad Commission would have no authority to authorize the issuance by the telephone company of \$75,000 of additional stock.

On September 1, 1920, the Lenawee County Telephone Company filed an application with the Michigan Public Utilities Commission praying authority to issue \$100,000 of its authorized capital stock. The petition was drawn considerably along the lines of the 1916 petition to the Michigan Railroad Commission, but varied from that petition in that the company requested an additional issue of stock in the sum of \$100,000 instead of \$75,000, the amount asked for in 1916. Paragraph 5 of the petition filed September 1, 1920, reads as follows:

"5. Deducting from the aforesaid valuation of assets, namely, \$260,-022.63, plus additions since to January 1, 1920, \$14,466.11, the amount of outstanding common stock, \$150,000, less deduction since 1916 of \$8,-488.71, there remains surplus, or undivided physical assets of your petitioner, over and above its stock liability, \$116,000.03.

Petitioner sets up that, under these facts, were this corporation not a public utility it would have the undoubted right, by and with the consent of its stockholders and directors, to cause all and singular the real capital employed in its business to be represented by capital stock of an equivalent par amount, and that such dividend could be made payable in cash or in stock according to its judgment. Petitioner, however, with

the primary purpose of serving the public has no disposition in any way to withdraw assets from the active operation of its business; but, at the same time, feels that justice to its shareholders entitles them to receive, by way of dividend, their share of these assets, but in such a way as not to withdraw from active use any of the assets and property of the company now dedicated to public service. Accordingly, subject to the approval of this Commission, petitioner proposes to declare a dividend of \$100,000, payable in common capital stock of the company, in lieu of an equivalent declaration of cash dividend, and to charge such amount of dividend against assets of equivalent valuation; so that when said dividend, if permitted by this Commission, shall have been declared and paid, the outstanding capital stock of your petitioner will be \$250,000 against physical assets of the fair valuation of \$266,000, leaving surplus physical assets of \$16,000, computed according to the inventory and appraisal submitted as a part of this application, namely, Exhibit A with additions as hereinbefore referred to.

Wherefore, your petitioner prays that this Commission enter an order authorizing and empowering the Lenawee County Telephone Company to issue \$100,000 of par of its presently authorized common capital stock, and that it be permitted to declare a dividend of like amount, payable in said stock, for ratable distribution to its shareholders."

On September 15, 1920, the matter came on to be heard, together with an application of the Lenawee County Telephone Company for an increase in its rates, which application was filed in File T-91. Said matters were heard together; considerable testimony being taken. At that hearing the company claimed that its earned, undistributed surplus stood at that time at about \$15,000. It did not claim the right to issue the additional \$100,000 of stock it sought to issue on the ground that it had earned undistributed surplus invested in capital assets, but on the ground upon which it urged its petition in 1916, viz: that its property was put in in the first place at too small a capitalization. Said company claimed, of course, that the \$100,000 it asked for really constituted a surplus, but that it was a paid in surplus and not a surplus earned after the organization of the company and not paid out. It was agreed at that hearing that the Commission should not decide the question of an increase in rates, nor should it decide the question of the issue of the additional stock

until after a complete inventory and appraisal of the property of the company and a complete audit of its books was made by the Commission.

The Commission, through its engineering department, has since that time made a complete inventory and appraisal of the property of the Lenawee County Telephone Company, and the matter was brought on before the Commission for another hearing on December 14, 1921. Since that time and on January 12, 1922, the Commission filed an opinion in Case T-91,* discussing the history of the company and the fair value of its property. Much that is said in that opinion does not need to be here repeated, but the Commission there reached the conclusion that the fair value of the property of this corporation at the present time for rate-making purposes is \$247,000. That sum includes all the property of the company, that is to say, both its exchanges and its toll system. The following, therefore, appears:

The fair value of the property of the Lenawee County Telephone Company for rate-making purposes has been found by this Commission to be.....	\$247,000
That corporation has stock outstanding against the said property in the sum of only.....	150,000
<hr/>	
Fair value in the property over and above its outstanding capital securities	\$97,000

The question then arises; the Commission having found that as a matter of fact the Lenawee County Telephone Company has property of the fair value of \$97,000 more than its outstanding capitalization, should the said corporation be permitted to issue stock to its present stockholders for that \$97,000, or for any part of it, and if any portion of that \$97,000 should be capitalized, how much should be so capitalized? It may be here properly stated that this corporation has been phenomenally successful financially.

* See Commission Leaflet No. 124, p. 992.

It has paid dividends upon its outstanding capital stock as follows:

1911 — 8 per cent. on \$100,000 capital stock, the amount paid out being	\$8,000
1912 — 8 per cent. on \$100,000 capital stock, the amount paid out being	8,000
1913 — 14 per cent. on \$150,000 capital stock, the amount paid out being	21,000
1914 — 10 per cent. on \$150,000 capital stock, the amount paid out being	15,000
1915 — 10 per cent. on \$150,000 capital stock, the amount paid out being	15,000
1916 — 10 per cent on \$150,000 capital stock, the amount paid out being	15,000
1917 — 15 per cent. on \$150,000 capital stock, the amount paid out being	22,500
1918 — 15 per cent. on \$150,000 capital stock, the amount paid out being	22,500
1919 — 15 per cent. on \$150,000 capital stock, the amount paid out being	22,500
1920 — 15 per cent. on \$150,000 capital stock, the amount paid out being	22,500
1921 — 5 per cent. on \$150,000 capital stock, the amount paid out being	7,500
TOTAL AMOUNT PAID OUT AS DIVIDENDS.....	\$179,500

The dividends paid amount to almost exactly 11.6 per cent., per annum, upon the capital stock outstanding from time to time. Of course, the telephone company claimed in 1916 that it really had \$75,000 in value in the plant over and above its outstanding stock, and it now claims that it has \$100,000 in value in its plant over and above its outstanding stock, but assuming that the telephone company is right about it, it appears that the persons having their money in this plant have received a reasonable rate of return upon their investment during all the years of the existence of the company. It may be here stated that in the articles of association filed by the telephone company in 1910, there is no mention made of the taking over of the property of the two prior telephone companies at all.

The company was organized under Act No. 129 of 1883 which did not require that there should be in the articles any statement of the property taken over or the value at which any property taken into the company was taken. It is true, of course, that in the case of a corporation organized under Act No. 232 of 1903, any property taken over would have to be taken at an agreed-upon value, the property to be listed and the value stated in the articles of incorporation.

In reaching a fair value of \$247,000 for the property of this utility, in Case T-91,* the Commission took into consideration among many other things the following different statements of the value of the property of the utility:

(a) Book cost	\$281,189
(b) Engineers' estimated original cost.....	244,396
(c) Estimated reproduction cost new.....	555,273
(d) Estimated reproduction cost new, less depreciation.....	441,981

It should be here stated that our auditors found the true additions to the plant from its commencement to the time of their audit to be \$89,068.41, and that those additions were paid for by the sale of capital stock to the amount of \$50,000, leaving earnings of the company invested in capital assets and not heretofore capitalized, \$39,068.41.

From these figures and what has been said above, it is very apparent that the value of the property taken into the Lenawee County Telephone Company in 1910 must have been considerably in excess of \$100,000, and that if a fair appraisal of the property had been made at that time the incorporators of the Lenawee County Telephone Company would have been entitled to a stock issue much in excess of \$100,000 on the basis of the value of the property they were putting into the corporation.

In addition to paying to its stockholders very substantial dividends during its entire life, this company has been able

* See Commission Leaflet No. 124, p. 992.

to accumulate a cash fund which amounts to a depreciation fund, the amount of said fund being on September 30, 1921, \$75,744.77. The Commission in its opinion in Case T-91,* found that the condition of the company's telephone plant and equipment is not the best, and that there is now a substantial amount of deferred maintenance which of necessity must be cared for in the immediate future. It therefore appears that, within a very short time, the company will find it necessary to make replacements and renewals which will draw heavily upon this replacement or depreciation fund, and much of that fund will probably be used in the very near future in renewing and replacing portions of the present plant. This cash reserve of the telephone company amounting to approximately \$75,000 is not the property of the stockholders, but represents money paid in by the telephone using public to offset the deterioration and depreciation of the telephone property caused by years of service. This fund is in effect a trust fund, the real ownership of the fund being in the telephone using public of Lenawee County. While it technically stands in the name of the Lenawee County Telephone Company, it would have no right to appropriate it to the payment of dividends to stockholders. It represents money paid by the telephone using public to the telephone company over and above a fair and reasonable return to the stockholders to enable the telephone company to keep the telephone plant and equipment in condition so that it can give adequate service to the said telephone using public. It would appear to the Commission that this fund has grown to such proportions that the amount the telephone company will find it necessary to set aside into a depreciation fund in the immediate years to come will not be very large.

Upon a consideration of this entire matter, the Commission is of opinion that this corporation should be permitted to issue enough more stock to its stockholders, in proper

* See Commission Leaflet No. 124, p. 992.

proportions, so that the amount of stock outstanding will approximate the fair value of the property of the corporation used and useful in the service of the public. We do not believe the corporation is bound at the present time by the amount at which it took the property over in 1910. If at that time it had so manipulated matters as to issue stock for much more than the fair value of the property taken into the corporation, the Commission would not, at this time, be able to cause the retirement of the excess amount of stock issued, but it would be able to see to it that the corporation earned a fair return upon only the fair value of its property. This would mean that the rate of dividend it would be possible for the corporation to pay on its capital stock would be very much smaller than the rate it would be able to pay had its stock fairly represented the fair value of its property. In other words, the telephone company and its stockholders would gain nothing by capitalizing their corporation at an excessive amount. If the property of this corporation is worth approximately \$247,000 for rate-making purposes, we know of no reason why the stockholders should not have stock equal to approximately the fair value of the property. The Commission has made a most exhaustive examination of all the property and affairs of this corporation and has reached the conclusion that the property has a fair value of \$247,000. The stockholders of the corporation have stock in their possession aggregating only \$150,000. The company has no outstanding bonds and we know of no reason why its stockholders are not entitled to have in their possession stock for approximately the \$97,000 of par value in excess of the present capitalization. We conclude that \$90,000 of the \$97,000 excess may be capitalized and stock issued to the present stockholders pro rata in that amount. This will permit the issuance to each stockholder of an amount of stock equal to 60 per centum of his present holdings. The issuance of this \$90,000 of stock is based upon the conclusion of the Commission that the property

put into the corporation at the time of its organization was worth considerably more than \$100,000, and also upon the fact that approximately \$40,000 of the earnings of the corporation since 1910 have been reinvested in the company's plant.

An order will accompany this opinion, drawn along the lines herein indicated.

Dated at Lansing, Michigan, this twenty-eighth day of February, 1922.

ORDER.

In this matter the Lenawee County Telephone Company having on September 1, 1920, filed an application herein praying that it be authorized to issue to its stockholders, in proper proportions, the common capital stock of the said corporation in the sum of \$100,000 without the payment of any money into the corporation by said stockholders at this time, said petitioner claiming that at the time the said corporation was organized in, to-wit, 1910, property of the value of considerably more than \$200,000 was conveyed to the corporation by the stockholders while only \$100,000 of capital stock was issued, said corporation claiming that it started with a paid in surplus of considerably more than \$100,000 which it should be permitted to capitalize, and said corporation also claiming that it has since 1910 invested a large amount of earnings in its fixed capital which earnings have not been paid out as dividends to stockholders;

And the above-entitled matter having been brought on to be heard before the Commission on September 15, 1920, and thereafter the Commission having caused a complete audit of the books and records of the said corporation and a complete inventory and appraisal of its plant, property and facilities to be made, and said work having been completed and presented to the Commission; and thereafter and on December 14, 1921, a further hearing having been held at which the audit and appraisal were submitted to the Commission;

And the Commission having on January 12, 1922, in File T-91* found the fair value of the plant, property and facilities of the said corporation to be \$247,000;

And the Commission having considered the application in this case and all the files and records herein and all the files and records in Case T-91* and all the testimony taken in the said hearings, the appraisal, the audit and all other matters proper to be considered, said Commission finds:

(a) That the Lenawee County Telephone Company issued to its stockholders \$100,000 of capital stock at the time of its organization in 1910, although the property turned over to said corporation by its stockholders at that time had a fair value of far more than \$100,000, and that therefore the incorporators and stockholders of the Lenawee County Telephone Company turned into the said corporation at the time of its organization in 1910 property of the fair value of very much more than the par value of the stock they received at that time;

(b) That soon after the year 1910, the Lenawee County Telephone Company sold \$50,000 in par amount of its capital stock for cash and at par, and that the said \$50,000 went into the said corporation to pay for additions, extensions, betterments and improvements;

(c) That this Commission found in its order and opinion in Case T-91* as of date January 12, 1922, that the fair value of the plant, property and facilities of the Lenawee County Telephone Company for rate-making purposes was \$247,000;

(d) That, although the said fair value of said plant, property and facilities for rate-making purposes was found to be \$247,000, yet there is outstanding as against said fair value capital securities of only \$150,000, the fair value of the plant, property and facilities of the said corporation for rate-making purposes being thus found to be \$97,000 more than the capital securities outstanding;

(e) That in the opinion of this Commission the said corporation should not be permitted to issue \$100,000 of

* See Commission Leaflet No. 124, p. 992.

capital stock as prayed for in its petition, but that said corporation, the Lenawee County Telephone Company, should be at this time permitted to issue to its stockholders additional capital stock in the par amount of \$90,000 without the payment by the said stockholders of any further sums of money to the corporation on account of said issue;

(f) That the authority hereafter given in this order to the said corporation to issue to each of its stockholders additional stock equivalent to 60 percentum of the present holdings of each stockholder is based upon the fact that the stockholders originally contributed far more value to the corporation than the par amount of the stock, and also upon the fact that the corporation has since its organization invested in its plant, property and facilities a large amount of undistributed earnings which have not been heretofore capitalized;

(g) That the money and property received by the corporation and invested in its plant, property and facilities has been applied to lawful purposes and that the use of the money and property put into the said corporation by the stockholders and for which they have never received stock was reasonably required for and essential to the capital purposes of the said corporation, and that a portion of the value upon which the said stock is based fairly represents accumulated and undistributed earnings invested in capital assets and not heretofore capitalized;

(h) That the Lenawee County Telephone Company has paid into the Treasury of the State of Michigan the sum of \$90.00 being the fee required of it under the provisions of Section 11 of Act 419 of the Public Acts of Michigan for the year 1919, and has filed the receipt of the State Treasurer therefor in the office of this Commission.

Now, therefore, by virtue of the power and authority vested in this Commission under the provisions of Act 144, Public Acts of Michigan for the year 1909, as amended and now in force, and of Act 419, Public Acts of Michigan for the year 1919,

It is hereby ordered, in conformity with the provisions of an opinion made and filed herewith:

(1) That the Lenawee County Telephone Company, a corporation, should be, and it is hereby, authorized and empowered at this time to issue to its stockholders additional capital stock in the amount of 60 percentum of the present holdings without the payment of any additional moneys into the corporation by the said stockholders, that is to say, said corporation is authorized and empowered to issue to each stockholder an amount of stock equivalent to 60 percentum of the stock he owns in the said corporation, said stockholder not being required at this time to pay any additional moneys into the said corporation on account of the issue of such stock; the issue of such stock being based upon property and value contributed to the corporation by the stockholders at the time of the organization of the said corporation, but never heretofore capitalized, and upon accumulated and undistributed earnings of the corporation since its organization invested in capital assets and not heretofore capitalized.

(2) The books of the said corporation may be by the corporation rewritten in such a way as to show that said \$90,000 is included in the capital account of the said corporation upon the authority of this order, said \$90,000 to be charged to capital and credited to what has been heretofore in substance surplus. The accounting department of this Commission will give to the Lenawee County Telephone Company such assistance as may be necessary in order that the proper entries, clearly showing this transaction, may be made upon the books of the said corporation.

(3) As soon as the said \$90,000 of capital stock, the issuance of which is authorized by this order, shall have been issued and within ninety days from the date of this order, the said Lenawee County Telephone Company shall, by a statement duly verified by its president and secretary, file a report with this Commission containing the names and addresses of all its stockholders and the amount of

stock respectively held and owned by _____ prior to the issuance to them, respectively, of the _____ authorized by this order, and showing the amount _____ stock issued to each of the said stockholders by virtue of the authority contained in this order, and showing the proper capital stock held and owned by the stockholders _____ each of them has been issued the additional stock to which he has become entitled on account of the terms of this order.

(4) That after the stock authorized by this order has been issued, the said Lenawee County Telephone Company will have outstanding common capital stock _____ the par amount of \$240,000 against a fair value for _____ making purposes as found by this Commission of \$2 _____ that the said corporation has no preferred stock _____ and no bonds outstanding, and that the corporation has a depreciation fund approximating \$75,000, which depreciation fund shall be used and applied only to providing for renewals and replacements of the plant, property and facilities of the Lenawee County Telephone Company as they are needed.

(5) It is made a condition precedent to the issuance and delivery to the stockholders of any of the \$90,000 of additional stock authorized by the terms of this order that a certified copy of this order shall be entered at length upon the corporate minutes of the petitioner corporation.

(6) This Commission hereby specifically retains and reserves to itself jurisdiction over this matter and the right to make any other or further order herein which in its judgment should be hereafter made.

February 28, 1922.

In re APPLICATION OF THE VAN BUREN COUNTY TELEPHONE
COMPANY FOR AUTHORITY TO ISSUE FIRST MORTGAGE
BONDS.

3. It is ma
sale of any of

D-975.

Decided February 28, 1922.

Sale of Bonds Authorized.

ORDER.

In this matter the Van Buren County Telephone Company, a corporation, having on February 11, 1922, filed its application herein praying that it be authorized to sell \$15,000 of first mortgage bonds;

And the matter having been set to be heard on February 21, 1922, and having been continued until this time, and on this date, February 28, 1922, having been heard, the company appearing by *Albert B. Chase*, its secretary and treasurer, whose testimony was taken;

And the Commission having examined the petition herein, and all the documents and papers accompanying the same, and all the files and records of this case and considered the testimony taken as aforesaid, the Commission finds:

(a) That the said Van Buren County Telephone Company has capital stock outstanding in the sum of \$100,000, and first mortgage bonds in the sum of \$33,300, and has been heretofore authorized to sell first mortgage bonds in the sum of \$35,000; so that at the time this petition was filed, the said corporation had the right to sell bonds in the sum of \$1,700 which had not been sold;

(b) That the mortgage of the said applicant was in the sum of \$50,000, and that said applicant desires to be authorized to sell the remaining \$15,000 of its bonds to reimburse its treasury on account of additions, extensions, betterments and improvements heretofore made; the proof showing that such additions, extensions, betterments and improvements have been made in the past, but not capitalized, to the extent of about \$35,000;

(c) That the moneys to be received from the sale of the said bonds are to be applied to lawful purposes, and that the use of the funds to be secured by the issuance and sale of the said bonds in the said par amount of \$15,000 is reasonably required for and essential to the proper capital purposes of the said corporation;

(d) That the Van Buren County Telephone Company has paid into the Treasury of the State of Michigan the sum of \$50.00 being the fee required of it, under the provisions of Section 11 of Act 419 of the Public Acts of Michigan for the year 1919, and has filed the receipt of the State Treasurer therefor in the office of this Commission.

Now, therefore, by virtue of the power and authority vested in this Commission under the provisions of Act 144 of the Public Acts of Michigan for the year 1909, as amended, and now in force, and of Act 419 of the Public Acts of Michigan for the year 1919,

It is hereby ordered,

1. That the said Van Buren County Telephone Company is hereby authorized and empowered to sell \$15,000 of its first mortgage bonds in addition to the \$35,000 of such bonds as it has been heretofore authorized to sell; the said \$15,000 of its said first mortgage bonds, which it is hereby authorized to sell, to be sold at the best price obtainable but under no circumstances at less than 90 percentum of par and accrued interest; the proceeds to be received from the issuance and sale of the said bonds to be used for the purpose of reimbursing the treasury of the said corporation in part, on account of additions, extensions, betterments and improvements heretofore made by said corporation to its plant, property and facilities, said proceeds of said bonds to be used for no other purposes.

2. That on January 1, 1923, the said corporation shall by a statement duly verified by some of its responsible officials, report to this Commission the amount of bonds then sold by virtue of the authority contained in this order, and the disposition of the proceeds thereof; and that said

corporation shall file a like report each six months thereafter, until all of the bonds, the sale of which is authorized by this order, shall have been sold and proceeds applied to the purposes contemplated by this order.

3. It is made a condition precedent to the issuance or sale of any of the said \$15,000 of first mortgage bonds that a certified copy of this order be recorded at length upon the corporate minutes of the petitioner corporation, and another certified copy delivered to R. J. Madill, of South Haven, Michigan, who is the trustee named in the mortgage given by the Van Buren County Telephone Company to secure its said bond issue, and that the receipt by the said R. J. Madill of the said certified copy, be acknowledged in writing by him, and said writing placed in this file.

4. The Commission hereby specifically retains and reserves to itself jurisdiction over this matter and the right to make any further order herein which in its judgment should be hereafter made.

February 28, 1922.

In re APPLICATION OF THE LENAWEE COUNTY TELEPHONE
COMPANY FOR AN ORDER FIXING THE BASIC RATE AREA
FOR TELEPHONE SERVICE AT ADRIAN.

T-91.

Decided March 2, 1922.

Basic Exchange Rate Area Established.

ORDER.

The above-named telephone company having made application to this Commission for an order fixing the basic exchange rate area for its telephone exchange at Adrian, from which said application it appears that said Lenawee County Telephone Company has heretofore, without an order of the Commission, fixed the corporation limits of the city of Adrian as the boundary of the basic rate area for

telephone service in said city; and the Commission having given said application consideration, and having heretofore, on January 12, 1922, made an order* in this cause fixing telephone rates;

Now, therefore, it is hereby ordered, That from and after the effective date of January 12, 1922, said Lenawee County Telephone Company be, and it is hereby, authorized and empowered to make the basic exchange rate area for telephone service in the city of Adrian the corporate limits of said city.

And the order* heretofore issued by this Commission on January 12, 1922, shall be construed in connection with this order in the application of the telephone rates fixed therein.

March 2, 1922.

In re APPLICATION OF THE OVID MUTUAL TELEPHONE COMPANY FOR AUTHORITY TO INCREASE ITS RATES, RENTALS AND CHARGES.

T-362.

Decided March 8, 1922.

Increase in Rates Authorized — Discontinuance of Service for Failure to Pay Rent Authorized — Service Charge Against Delinquent Subscribers Established.

ORDER.

The application of the above-named telephone company for leave to increase its rates, rentals and charges, having been brought on to be heard, and it appearing that due notice of the intention of applicant to apply for said increase in its rates, rentals and charges, was heretofore given by publication of said notice in the Ovid Register Union, a newspaper of general circulation in the territory served by the telephone lines and facilities of applicant, and that the rates, rentals and charges herein authorized are justified,

* See Commission Leaflet No. 124, p. 992.

Now, therefore, it is hereby ordered by the Michigan Public Utilities Commission:

(1) That said Ovid Mutual Telephone Company is authorized to charge and collect an annual telephone rental of \$16.00, payable quarterly in advance.

(2) Said applicant is hereby authorized to receive and collect an additional charge of 10 per cent. of the quarterly rental from all patrons and subscribers who have not paid for such service by the end of the first month of the quarter in which such rental charges are due and payable, and said telephone company is authorized to discontinue its telephone service to any subscriber who shall not have paid for such service by the end of the second month of the quarter in which such rental charges are due and payable; and said telephone company may enforce and collect a service charge when it or its authorized officers or agents shall have gone upon the premises of a delinquent subscriber for the purpose of removing a telephone, and if such subscriber shall then pay, or offer to pay the delinquent bill and penalty, he shall pay in addition, a service charge of \$3.00.

(3) The rates herein authorized are based upon the rendition of reasonably adequate telephone service, and in case applicant shall neglect to render such service or to keep its lines in condition so that reasonably adequate service may be rendered over them, then and in such case the Commission reserves the right to reduce its telephone rates, rentals and charges.

(4) Applicant shall have and keep on file and open for public inspection in its principal office and place of business, the rates, rentals and charges, and rules and conditions of service herein fixed.

(5) Upon receipt of a certified copy of this order, said telephone company shall file with the Commission a statement of all of its rates, rentals and charges, and rules and conditions of service in force.

March 8, 1922.

MINNESOTA.

Railroad and Warehouse Commission.

In re APPLICATION OF THE STAR TELEPHONE COMPANY FOR
AUTHORITY TO PLACE IN EFFECT A SCHEDULE OF TOLL
RATES AND TO ESTABLISH AND PLACE IN EFFECT SERVICE
CONNECTION AND OTHER MISCELLANEOUS CHARGES.

Decided February 7, 1922.

**Exchange Rates Sufficient to Absorb Expense of Long Distance Service
Disapproved — Toll Rates Established — Service Connection
and Other Miscellaneous Charges Authorized.**

ORDER.

Pursuant to notice, hearing in the above matter was held at Farmington, Minnesota, January 17, 1922. *T. C. Macoubrey*, accountant, and *J. B. Farrell*, manager, appeared for the telephone company. *P. H. Casey*, *H. E. Van Dorn* and *Mr. Maloney*, appeared as objectors to the establishing of a toll charge for long distance messages.

The Star Telephone Company operates local telephone exchanges at Farmington, Lakeville, Rosemount, Mendota, Prior Lake, New Market, Webster and Lonsdale, to which are connected approximately 1,528 town and rural stations.

At the present time the subscribers of the Star Telephone Company have an interchange of service between all towns operated by the utility. An effort is made to collect a message rate for the toll service from non-subscribers.

The petitioner seeks authority to establish and place in effect the following schedule of toll rates, service connection and other miscellaneous charges:

<i>First Three Minutes.</i>									
	<i>Lake- ville</i>	<i>Farm- ington</i>	<i>Rose- mount</i>	<i>Men- dota</i>	<i>Webster</i>	<i>Lons- dale</i>	<i>Prior Lake</i>	<i>New Market</i>	
Lakeville.....	\$0 10	\$0 10	\$0 15	\$0 15	\$0 10	\$0 15	\$0 10	\$0 10	10
Farmington.....	\$0 10	.....	10	15	10	15	15	15	15
Rosemount.....	15	10	.....	10	15	15	15	15	15
Mendota.....	15	15	10	.....	15	15	15	15	15
Webster.....	10	10	15	15	.....	10	15	15	10
Lonsdale.....	15	15	15	15	10	.....	15	15	15
Prior Lake.....	10	15	15	15	15	15	.....	.....	10
New Market.....	10	15	15	15	10	15	10	.....	.....

NOTE: For each minute in excess of the first three minutes, a charge of 5 cents per minute.

Service Connection Charges.

	<i>Business Stations</i>	<i>Residence Stations</i>	<i>Extension Stations</i>
Instrument not in place.....	\$2 00	\$1 50	\$1 00
Instrument in place	1 50	1 00	No charge

Charges for inside and outside moves, changes in type of equipment and other miscellaneous charges.

At the hearing it was generally conceded by those present that the petitioner was entitled to and in need of additional revenue to operate the utility properly and to establish a reserve for renewals. It was suggested, that instead of placing a toll message rate in effect, the company should increase all rental rates 25 cents per month. The Commission does not approve of the policy of charging all subscribers a rental rate which will absorb the expense of furnishing long distance service to a few. A reasonable charge for long distance service will have the effect of curtailing the number of trivial messages for those of more importance and will place the cost of this service upon the user.

The schedule submitted by the petitioner has been carefully checked by the Commission, with the result that a few of the rates for short distances have been reduced. The Commission is also of the opinion that the initial period should be extended from three to five minutes: that where the initial rate is 10 cents, the overtime rate should be 5 cents for each additional three minutes, and where the rate is 15 cents, the overtime rate should be 5 cents

for each additional two minutes. It is believed that by increasing the initial and overtime periods it will be of material benefit to the public and will tend to increase the number of long distance messages, thereby creating more revenue for the telephone company.

The Commission finds that the petitioner's present rates and charges do not produce sufficient revenue to provide for the necessary operating expense, depreciation and a fair return upon the investment.

Upon review of all the facts in the matter, the Commission finds that the modified schedule of toll rates is fair and reasonable, and that this schedule and the service connection charges and other miscellaneous charges will not yield more than sufficient revenue to provide for the necessary operating expense, depreciation and a fair return upon the investment.

It is, therefore, ordered, That the Star Telephone Company be, and the same is hereby, permitted to establish and place in effect, as of March 1, 1922, the following schedule of toll rates for messages originating and terminating on the company's toll lines and to establish and place in effect a schedule of service connection and other miscellaneous charges at each of its exchanges:

	<i>First Five Minutes.</i>							
	<i>Lakeville</i>	<i>Farmington</i>	<i>Rosemount</i>	<i>Mendota</i>	<i>Webster</i>	<i>Lonsdale</i>	<i>Prior Lake</i>	<i>New Market</i>
Lakeville.....	\$0 10	\$0 10	\$0 10	\$0 15	\$0 10	\$0 15	\$0 10	\$0 10
Farmington.....	\$0 10	.....	10	15	10	15	15	10
Rosemount.....	10	10	.....	10	15	15	15	15
Mendota.....	15	15	10	.....	15	15	15	15
Webster.....	10	10	15	15	.....	10	15	10
Lonsdale.....	15	15	15	15	10	.....	15	10
Prior Lake.....	10	15	15	15	15	15	.....	10
New Market.....	10	10	15	15	10	10	10	.....

Where the initial rate is 10 cents for five minutes, the overtime rate to be 5 cents for each additional three minutes.

Where the initial rate is 15 cents for five minutes, the overtime rate to be 5 cents for each additional two minutes.

Service Connection Charges.

	<i>Business Stations</i>	<i>Residence Stations</i>	<i>Extension Stations</i>
Instrument not in place.....	\$2 00	\$1 50	\$1 00
Instrument in place	1 50	1 00	No charge

Contract Terms:

The contract term for main station service not to exceed one month.

No additional contract required for supplemental service and equipment, such as extension station service, joint user service, extra listings and extension bells.

The subscriber to furnish any necessary conduit and moulding and also bear the expense in case of drilling of solid masonry or concrete wall.

Move Charges.

Outside Moves:

All outside moves to bear the regular service connection charge for the class of service affected.

Inside Moves:

Main station or extension station within same room, or within same premises \$1 00

Change in Type of Equipment:

Main station or extension station, each..... 1 00

Disconnect and Reconnect for Non-payment:

Any class of service..... 2 00

Superseding Subscribers.

Main Station Service:

Any individual, firm or corporation to supersede another without the payment of service connection charges, provided there is no interruption of service and no change in name or in location or type of equipment.

For change in name only in the directory listing, but no change in the telephone number, a charge of \$1.00.

In all other cases, the regular service connection charges to apply.

Dated at St. Paul, Minnesota, this seventh day of February, 1922.

In re APPLICATION OF THE WEBSTER FARMERS COOPERATIVE
TELEPHONE COMPANY FOR AUTHORITY TO INCREASE
RATES.

Decided February 8, 1922.

**Same Rate for All Classes of Service Held Discriminatory—Increase
in Rates Authorized.**

ORDER.

Pursuant to notice, hearing in the above matter was held at Lonsdale, Minnesota, January 13, 1922. *Fred Dodes*, president, *John J. Barrett*, secretary, and *A. E. Rowlands*, accountant, appeared for the telephone company. No one appeared to protest the application.

The Webster Farmers Cooperative Telephone Company is now charging \$1.00 per month for all classes of service.

The petitioner seeks authority to establish and place in effect the following schedule of rates:

	<i>Per Month Gross</i>
Individual line, business.....	\$1 50
Two-party line, business.....	1 50
Three-party line, business.....	1 50
Four-party line, business.....	1 50
Individual line, residence.....	1 50
Three-party line, residence.....	1 50
Four-party line, residence.....	1 50
Rural, multi-party	1 50

Service to be billed quarterly in advance, with a discount of 75 cents if paid on or before the twentieth of the first month of the quarter; a discount of 50 cents if paid on or before the twentieth of the second month of the quarter and a discount of 25 cents if paid on or before the twentieth of the third month of the quarter in which the service is rendered.

At the hearing the petitioner amended the application as follows:

	<i>Per Month Gross</i>
Individual line, business.....	\$1 50
Four-party line, business.....	1 25
Individual line, residence.....	1 50
Four-party line, residence.....	1 25
Rural, multi-party	1 25

The discount regulation on the original application to apply.

The applicant also amended the application to include a charge of \$2.00 for the installation of a telephone.

The Webster Farmers Cooperative Telephone Company is a corporation operating local telephone exchanges at Webster and Lonsdale, Minnesota. It serves 104 rural and local stations at Webster and 158 at Lonsdale. The two exchanges are connected with a clear trunk line and the subscribers of both exchange areas have an interchange of service. This territory is also served by the Star Telephone Company of Rosemount, Minnesota.

Upon review of all the facts the Commission finds that the present rates of the petitioner are discriminatory because the same rate is charged for all classes of service; that the revised and amended schedule of rates is fair and reasonable and will not yield more than sufficient revenue to provide for the necessary operating expense, depreciation and a fair return upon the investment.

It is, therefore, ordered, That the Webster Farmers Cooperative Telephone Company be, and the same is hereby, permitted to establish and place in effect, as of March 1, 1922, the following schedule of rates and charges at Webster and Lonsdale, Minnesota:

	<i>Per Month Gross</i>
Individual line, business.....	\$1 50
Four-party line, business.....	1 25
Individual line, residence.....	1 50
Four-party line, residence.....	1 25
Rural, multi-party	1 25

Service payable quarterly in advance, with a discount of 75 cents if paid on or before the twentieth of the first month of the quarter; 50 cents if paid

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on or before the twentieth of the second month of the quarter and 25 cents if paid on or before the twentieth of the third month of the quarter in which the service is rendered.

Service Connection Charges.

	<i>Business Stations</i>	<i>Residence Stations</i>	<i>Extension Stations</i>
Instrument not in place.....	\$2 00	\$1 50	\$1 00
Instrument in place.....	1 50	1 00	No charge

Contract Terms:

The contract term for main station service not to exceed one month.

No additional contract required for supplemental service and equipment, such as extension station service, joint user service, extra listings and extension bells.

The subscriber to furnish any necessary conduit and moulding and also bear the expense in case of drilling of solid masonry or concrete wall.

Move Charges.

Outside Moves:

All outside moves to bear the regular service connection charge for the class of service affected.

Inside Moves:

Main station or extension station, within same room, or within same premises \$1 00

Change in Type of Equipment:

Main station or extension station, each..... 1 00

Disconnect and Reconnect for Non-payment:

Any class of service..... 2 00

Superseding Subscribers.

Main Station Service:

Any individual, firm or corporation to supersede another without the payment of service connection charges, provided there is no interruption of service and no change in name or in location or type of equipment.

For change in name only in the directory listing, but no change in the telephone number, a charge of \$1.00.

In all other cases, the regular service connection charges to apply.

Dated at St. Paul, Minnesota, this eighth day of February, 1922.*

* On February 10, 1922, an increase in rates was authorized *In re Newfolden Central Telephone Company*.

In re APPLICATION OF THE LOCKHART TELEPHONE COMPANY
FOR AUTHORITY TO INCREASE RATES AND TO ESTABLISH
INSTALLATION CHARGES.

Decided February 10, 1922.

**Increase in Rates Authorized—Service Connection and Other Charges
Established.**

ORDER.

Pursuant to notice, hearing in the above matter was held at Lockhart, Minnesota, January 10, 1922. Appearances for the petitioner: *W. E. Casselman*, president; *Jesse Barnes*, secretary; *C. C. Allen*, stockholder; *Mr. Boesch*, bookkeeper. No protests to the application were entered.

The Lockhart Telephone Company, a co-partnership, operates rural multi-party lines exclusively and serves approximately 14 town and 102 rural stations over lines connected with the exchange of the Norman County Telephone Company at Ada, Minnesota. The so-called town telephones are located in the villages of Lockhart and Hadler, Minnesota.

The present rates of the company are, \$1.00 per month for both town and rural subscribers.

The petitioner seeks authority to establish and place in effect the following schedule of rates:

Rural, multi-party, business, per month.....	\$2 50
Extension station, business, per month.....	50
Rural, multi-party, residence, per month.....	1 50
Extension station, residence, per month.....	25
Installation charge, each time.....	2 50

A statement covering the operations of the company for the first ten months of 1921, projected to a twelve-months' period was submitted, together with an inventory and appraisal of the property.

The evidence shows that the operating expense of the company is below the normal expense of a company of its class, but the revenue derived under present rates is inadequate.

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Upon review of all the facts the Commission finds that the following modified schedule of telephone rates and charges is fair and reasonable and will yield sufficient revenue to provide for the necessary operating expenses, depreciation and a fair return upon the investment.

It is, therefore, ordered, That the Lockhart Telephone Company be, and the same is hereby, permitted to establish and place in effect, as of March 1, 1922, the following schedule of telephone rates and charges at Lockhart, Minnesota:

	<i>Per Month</i>
Rural, multi-party, business or residence.....	\$1 25
Extension stations, business or residence.....	50

Service Connection Charges.

	<i>Business Stations</i>	<i>Residence Stations</i>	<i>Extension Stations</i>
Instrument not in place.....	\$2 00	\$1 50	\$1 00
Instrument in place.....	1 50	1 00	No charge

Contract Terms:

The contract term for main station service not to exceed one month.

No additional contract required for supplemental service and equipment, such as extension station service, joint user service, extra listings and extension bells.

The subscriber to furnish any necessary conduit and moulding and also bear the expense in case of drilling of solid masonry or concrete wall.

Move Charges.

Outside Moves:

All outside moves to bear the regular service connection charge for the class of service affected.

Inside Moves:

Main station or extension stations, within same room or within same premises	\$1 00
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Change in Type of Equipment:

Main station or extension station.....	1 00
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Disconnect and Reconnect for Non-payment:

Any class of service.....	2 00
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Superseding Subscribers.

Main Station Service:

Any individual, firm or corporation to supersede another without the payment of service connection charges, provided there is no interruption of service and no change in name or in location or type of equipment.

For change in name only in the directory listing, but no change in the telephone number, a charge of \$1.00.

In all other cases, the regular service connection charges to apply.

Dated at St. Paul, Minnesota, this tenth day of February, 1922.

In re APPLICATION OF THE VILLARD TELEPHONE COMPANY FOR
AUTHORITY TO INCREASE RATES AND ESTABLISH SERVICE
CONNECTION AND OTHER MISCELLANEOUS CHARGES.

Decided February 10, 1922.

Increase in Rates Authorized — Service Connection and Other Miscellaneous Charges Established.

ORDER.

Pursuant to notice, hearing in the above matter was held at Villard, Minnesota, December 22, 1921. *C. F. Angell*, president, and *J. T. Taylor*, secretary, appeared for the telephone company. No protests to the application were entered.

The Villard Telephone Company, a corporation, serves approximately 61 town and 65 rural stations and performs a switching service for 57 rural connecting line stations.

The present rates of the company are:

	<i>Per Month</i>
Individual line, business	\$1 50
Individual line, residence.....	1 00
Rural, multi-party	1 00
Rural, switching charge.....	15

The petitioner seeks authority to establish and place in effect the following schedule of local and rural telephone rates, service connection and other miscellaneous charges:

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	<i>Per Month</i>
Individual line, business, gross	\$2 25
Individual line, residence, gross	1 75
Rural, multi-party, gross	1 75
Rural, switching charge, net.....	35
Extension stations, business or residence, net.....	50
Extension bells, net	25

All local gross rates payable monthly, with a discount of 25 cents if paid on or before the fifteenth of the month in which the service is rendered.

Rural rates payable quarterly in advance, with a discount of 75 cents if paid on or before the fifteenth of the first month of the quarter; 50 cents if paid on or before the fifteenth of the second month of the quarter, and 25 cents if paid on or before the fifteenth of the third month of the quarter, in which the service is rendered.

Service Connection Charges.

	<i>Business Stations</i>	<i>Residence Stations</i>	<i>Extension Stations</i>
Instrument not in place.....	\$2 00	\$1 50	\$1 00
Instrument in place.....	1 50	1 00	No charge

Charges for inside and outside moves, changes in type of equipment, and other miscellaneous charges.

Statements covering the operations of the company for the years of 1919, 1920, and the first nine months of 1921 were submitted.

The evidence shows that the revenue derived under the present rates is not sufficient to cover a reasonable operating expense and to provide a reserve for depreciation. Although in the study of the case, allowance was made for certain necessary items of fixed charges which were omitted by the petitioner, the schedule applied for will produce revenue in excess of the company's requirements.

For several years past the subscribers have received so-called emergency telephone service between the hours of 9:30 P. M. and 7:00 A. M., without additional charge. The Commission is of the opinion that the schedule of rates herein authorized, will permit the company to continue the emergency service, without loss.

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The Commission finds that the following modified schedule of rates and charges is fair and reasonable and will yield sufficient revenue to provide for the necessary operating expenses, depreciation and a fair return upon the investment.

It is, therefore, ordered, That the Villard Telephone Company be, and the same is hereby, permitted to establish and place in effect, as of March 1, 1922, the following schedule of local and rural telephone rates, service connection and other miscellaneous charges, at Villard, Minnesota:

	<i>Per Month</i>
Individual line, business, gross	\$2 25
Individual line, residence, gross	1 50
Rural, multi-party, gross	1 50
Rural, switching charge, net	35
Extension stations, business or residence, net.....	50
Extension bells, net	25

A discount of 25 cents per month is allowed on all local gross rates if paid on or before the fifteenth day of the month in which the service is rendered.

Rural multi-party rates are payable quarterly in advance, with a discount of 75 cents if paid on or before the fifteenth day of the first month of the quarter; 50 cents if paid on or before the fifteenth day of the second month of the quarter, and a discount of 25 cents if paid on or before the fifteenth day of the third month of the quarter, in which the service is rendered.

Service Connection Charges.

	<i>Business Stations</i>	<i>Residence Stations</i>	<i>Extension Stations</i>
Instrument not in place.....	\$2 00	\$1 50	\$1 00
Instrument in place.....	1 50	1 00	No charge

Contract Terms:

The contract term for main station service not to exceed one month.

No additional contract required for supplemental service and equipment, such as extension station service, joint user service, extra listings and extension bells.

The subscriber to furnish any necessary conduit and moulding and also bear the expense in case of drilling of solid masonry or concrete wall.

*Move Charges.**Outside Moves:*

All outside moves to bear the regular service connection charge for the class of service affected.

Inside Moves:

Main station or extension station, within same room or within same premises	\$1 00
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Change in Type of Equipment:

Main station or extension station.....	1 00
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Disconnect and Reconnect for Non-payment:

Any class of service.....	2 00
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*Superseding Subscribers.**Main Station Service:*

Any individual, firm or corporation to supersede another without the payment of service connection charges, provided there is no interruption of service and no change in name or in location or type of equipment.

For change in name only in the directory listing, but no change in the telephone number, a charge of \$1.00.

In all other cases, the regular service connection charges to apply.

It is further ordered, That the Villard Telephone Company continue in effect emergency telephone service, between the hours of 9:30 P. M. and 7:00 A. M.

Dated at St. Paul, Minnesota, this tenth day of February, 1922.*

* On January 27, 1922, similar service connection charges and charges for moves and changes were authorized *In re South Haven Telephone Company* at its exchange at South Haven, and on February 7, 1922, *In re Home Telephone Company* at its exchange at Grand Meadow.

In re APPLICATION OF THE EAGLE VALLEY COOPERATIVE TELEPHONE COMPANY FOR AUTHORITY TO INCREASE RATES.

Decided February 28, 1922.

Increase in Rates Authorized — Discount of 15 Cents Held Insufficient.

ORDER.

Pursuant to notice, hearing in the above matter was held at Clarissa, Minnesota, February 9, 1922. *Henry Jedlicka*, secretary, appeared for the telephone company. Approximately 75 subscribers and stockholders were present.

The Eagle Valley Cooperative Telephone Company, a corporation, serves approximately 63 town and 212 rural stations and some 242 of its subscribers are stockholders in the company.

The present rates of the company are:

	<i>Per Month</i>
Individual line, business	\$1 50
Individual line, residence	1 00
Rural, multi-party	1 00

The petitioner seeks authority to establish and place in effect the following schedule of rates:

	<i>Per Month</i> <i>Gross</i>
Individual line, business	\$1 80
Individual line, residence	1 30
Rural, multi-party	1 30

A discount of 15 cents per month to be allowed on the above gross rates if bill is paid in advance.

A statement covering the operation of the company for the year 1921, together with an inventory and appraisal, was submitted in evidence.

In the analysis of the case a careful check of the reports and operations of the company for several years past was made. The facts in the case show that while the cost of operation has been below the normal expense for a com-

pany of its class, the income under present rates is inadequate.

The evidence shows that the company has failed to set up the full amount of legal reserve for depreciation and that a very considerable amount must be expended in the near future for reconstruction and betterments.

The petitioner seeks to place in effect a 15-cent discount regulation by addition of this amount to the net rate desired and discounting subscriber's gross bill, if account is paid in advance.

The Commission does not believe that a discount of 15 cents will have the desired effect and will authorize a discount of 25 cents from the gross rates which is more in accord with the general practice throughout the State.

Upon review of all the facts, the Commission finds that the following modified schedule of local and rural telephone rates is fair and reasonable and will not yield more than sufficient revenue to provide for the necessary operating expenses, depreciation and a fair return upon the investment.

It is, therefore, ordered, That the Eagle Valley Co-operative Telephone Company be, and the same is hereby, permitted to establish and place in effect, as of March 1, 1922, the following schedule of local and rural telephone rates at Clarissa, Minnesota:

	<i>Per Month Gross</i>
Individual line, business	\$2 00
Individual line, residence	1 50
Rural, multi-party	1 50

A discount of 25 cents per month will be allowed on the above gross rates, if paid on or before the fifteenth day of the month in which the service is rendered, and if billed quarterly a discount of 75 cents will be allowed if paid on or before the fifteenth day of the first month of the quarter; a discount of 50 cents if paid on or before the fifteenth day of the second month of the quarter and a discount of 25 cents if paid on or before the fifteenth day of the third month of the quarter in which the service is rendered.

Dated at St. Paul, Minnesota, this twenty-eighth day of February, 1922.

In re APPLICATION OF THE ROCHESTER TELEPHONE COMPANY
FOR AUTHORITY TO INCREASE RATES.

Decided February 28, 1922.

Rates as Requested Refused — Increase in Rates Authorized.

ORDER.

On April 7, 1921, the Rochester Telephone Company filed its petition stating that by reason of increased investment and operating expenses it was necessary to increase the gross revenue of the company from its exchange service at Rochester by not less than the sum of \$26,278 per annum, and asked that the schedule of rates made a part of said petition be placed in effect, the principal rates of which were as follows:

	<i>Gross</i>	<i>Net</i>
Individual line, business.....	\$5 25	\$5 00
Two-party line, business	4 25	4 00
Individual line, residence.....	3 00	2 75
Two-party line, residence.....	2 50	2 25
Four-party line, residence.....	2 25	2 00

Final valuation of the property not having then been completed by the company's or Commission's engineers, the Commission on May 4, 1921, authorized a temporary schedule of rates less than that requested as follows:

	<i>Per Month, Gross</i>
Individual line, business	\$4 75
Two-party line, business.....	4 00
Individual line, residence.....	2 75
Two-party line, residence.....	2 25
Four-party line, residence.....	2 00

A discount of 25 cents per month is allowed from the above gross rates for prompt payment.

These temporary rates were continued in effect from time to time, and are now the existing temporary rates.

On October 21, 1921, the telephone company renewed its application for increased rates, alleging that the temporary

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rates and charges prescribed by the order of the Commission May 4, 1921, had proved to be inadequate and insufficient, and requested that the rates and charges theretofore applied for be placed in effect.

The petitioner seeks authority to place in effect in general, the following schedule:

	<i>Per Month, Gross</i>
Individual line, business.....	\$5 25
Two-party line, business.....	4 25
Individual line, residence.....	3 00
Two-party line, residence.....	2 50
Four-party line, residence.....	2 25
Rural, multi-party	2 25
	<i>Per Annum, Net</i>
Rural, switching	\$9 00

A discount of 25 cents per month is to be allowed from the above gross rates for prompt payment.

Other miscellaneous rates would also be increased by the proposed schedule.

Pursuant to notice hearings in the matter were held at Rochester, Minnesota, on November 25, 1921, and in the office of the Commission, at St. Paul, Minnesota, on January 5, 1922.

The Rochester Telephone Company, formerly a local corporation, is now controlled by the Tri-State Telephone and Telegraph Company. During the past two years almost the entire outside plant has been reconstructed and the subscribers' station apparatus and the central office equipment has been converted from manual to automatic, thus changing the entire system, serving the city of Rochester and the surrounding community, from manual to automatic service. The exchange is now furnishing service to approximately 4,700 telephones.

The petitioner presented exhibits, prepared by engineers, to substantiate its investment in the telephone plant, which exhibits were carefully checked by the Commission's

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engineer, resulting in presenting of exhibits by him, changing somewhat the values claimed by the telephone company. Exhibits pertaining to the value of property were also presented by an engineer employed by citizens of Rochester. In the reconstruction of the property for the conversion from manual to automatic service, the net expenditures of the company for this work amounted to approximately \$337,325.

Exhibits pertaining to the operating revenues and expenses of the company were also submitted and a careful analysis of the capital accounts, as well as the operating revenue and expense accounts of the company, was made by experts of the Commission.

The Commission's engineers and accountants have developed a valuation of the property which is approximately \$35,000 less than that of the company's engineers, and which is a fair value to be used as a basis for determining rates. The showing under the temporary rates which have been in effect since May 1, 1921, has developed that the rates are not sufficient to provide necessary revenue for operating expenses, depreciation and a fair return upon the investment. However, the Commission is not satisfied that the company is entitled to the schedule of rates just as applied for.

After review and consideration of all the facts presented in connection with this case, the Commission finds that the following modified schedule of rates is fair and reasonable and will provide sufficient revenue for the necessary operating expenses, depreciation and a fair return upon the investment.

It is, therefore, ordered, That the schedule of rates as applied for be denied, and that the Rochester Telephone Company place in effect, as of March 1, 1922, the following schedule of rates for local and rural telephone service in the city of Rochester, Olmsted County, Minnesota:

Except as otherwise noted, the charges quoted on this tariff or supplements thereto, are for periods of one month, are payable monthly in

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advance, apply for service, equipment and facilities furnished for periods of one month, and entitle subscribers to unlimited calls to all stations of the Rochester exchange without any other charge:

A. WITHIN THE CORPORATE LIMITS OF THE CITY OF ROCHESTER.

	<i>Individual Line Station</i>	<i>Incoming Line Station</i>	<i>Two-Party Line Station</i>	<i>Four-Party Line Station</i>
Business	*\$5 00	\$.....	*\$4 25	\$.....
Residence	*3 00	.....	*2 50	*2 25

<i>Extension Stations</i>	<i>In Same Building</i>		<i>On Same Premises</i>	
	<i>Business</i>	<i>Residence</i>	<i>Business</i>	<i>Residence</i>
Wall set (regular type)..	\$1 00	\$0 75	\$2 00	\$.....
Wall set (special type, residence only) without bell .....	.....	50	.....	.....
Desk set	1 00	1 00	2 00	.....
Desk set (residence only) without bell .....	.....	75	.....	.....

B. OUTSIDE THE AREA INDICATED IN A AND WITHIN THE EXCHANGE AREA OF ROCHESTER.

<i>Individual and Party Lines</i>	<i>Farm Station</i>	<i>Service Station Multi-Party Line</i>
	<i>Multi-Party Line</i>	<i>Per Annum, Net</i>
The rates for business and residence service are the same as shown in A, plus excess exchange line mileage charges (see miscellaneous rates and regulations), and for extension stations, are the same as shown in A	†\$1 75	\$6 00

* A discount of 25 cents per month is allowed if the bill is paid at the company's office on or before the fifteenth day of the month in which it is rendered.

† A discount of 75 cents to be allowed if payment is made on or before the fifteenth day of the first month of the quarter in which the service is rendered; a discount of 50 cents if payment is made on or before the fifteenth day of the second month of the quarter, and a discount of 25 cents if payment is made on or before the fifteenth day of the third month of the quarter. Bills rendered rural subscribers quarterly.

MISCELLANEOUS RATES AND REGULATIONS.

Business and Residence Rates.

Special Business Rates Apply at the Following Locations:

- (1) In the offices of secretaries of Young Women's Christian Association or Young Men's Christian Association at association building. This does not apply to private branch exchange rates which are, in all classes, the regular commercial private branch exchange rates.
Individual line *\$2 75
- (2) Rooms occupied by charitable societies, and by persons engaged exclusively in charitable or eleemosynary work.
Individual line *2 75
- (3) Rooms occupied by fraternal societies, including the rooms of fraternal societies holding meetings occasionally in the evening, but not making constant use of their quarters for club purposes.
Individual line *2 75
- (4) Employees rates. When an employee has been in the service of the company six months or more, the following rates apply and terminate upon his leaving the employ of the company.
Commercial net rate less $33\frac{1}{3}$ per cent.; minimum charge, per month 1 00

Private Branch Exchange Rates.

Class A — Cordless Switchboard Systems:

Business — Commercial:

Both-way trunk line, individual line business rate, plus 50 per cent.	
Inward trunk line, individual line business rate, minus 25 per cent.	
Switchboard, not including operating station.....	\$3 00
Station, with dial	1 50
Station, without dial	1 25
Battery and power supply.....	No Charge

*A discount of 25 cents per month is allowed if the bill is paid at the company's office on or before the fifteenth day of the month in which it is rendered.

*Class B—Non-Multiple Cord Switchboard Systems:**Business—Commercial:*

Both-way trunk line, individual line business rate, plus 50 per cent.
 Inward trunk line, individual line business rate, minus 25 per cent.
 Switchboard, including operator's set:

If number of lines in use are	the rate per position is
10 or less	\$5 00
11 to 30	6 00
31 to 60	7 00
61 to 100	8 00
101 to 150	9 00
151 to 200	10 00
201 to 260	11 00
261 to 320	13 00

Station, with dial	\$1 50
Station, without dial	1 25
Battery and power supply.....	No Charge

Hotels, Apartment Houses, Clubs, etc.:

Both-way trunk line, individual line business rate, plus 50 per cent.
 Inward trunk line, individual line business rate, minus 25 per cent.
 Switchboard, including operator's sets, same as business, commercial rate.

Station, with dial	\$1 00
Station, without dial	75
Battery and power supply.....	No Charge

*Class C—Multiple Cord Switchboard Systems:**Business—Commercial:*

Both-way trunk line, individual line business rate, plus 50 per cent.
 Inward trunk line, individual line business rate, minus 25 per cent.
 Switchboard, including operator's set, per position.... \$15 00

Multiple station and trunk jacks in excess of one per line, per strip of 10 jacks in use.....	30
Station, with dial	1 50
Station, without dial	1 25
Battery and power supply.....	No Charge

Transient Hotel:

Both-way trunk line, individual line business rate, plus 50 per cent.
 Switchboard, including operator's set, per position.... \$15 00

Multiple station and trunk jacks in excess of one per line, per strip of 10 jacks in use.....	30
Station, with dial	1 00
Station, without dial	75
Battery and power supply.....	No Charge

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Class D — Intercommunicating Systems:

Business — Commercial:

Both-way trunk line, individual line business rate, plus 50 per cent.	
Inward trunk line, individual line business rate, minus 25 per cent.	
Push button switch, 12 lines or less.....	\$0 50
Station, with or without dial.....	1 25
Battery and power supply.....	No Charge

Residence:

Both-way trunk line, individual line residence rate, plus 50 per cent.	
Inward trunk line, individual line residence rate, minus 25 per cent.	
Push button switch, 12 lines or less.....	\$0 50
Station, with or without dial.....	1 00
Battery and power supply.....	No Charge

In the installation of Class D systems, the company will furnish and install not to exceed 25 feet of cable for any one station. Where longer runs are required the excess cable will be furnished and installed at the subscriber's expense.

Class E — Private Automatic Exchange with Attendant's Cabinet or Class B or Class C System Combined with Automatic or Mechanical Switching Apparatus:

Business — Commercial:

Both-way trunk line, individual line business rate, plus 50 per cent.	
Inward trunk line, individual line business rate, minus 25 per cent.	

Manual Switching Apparatus:

Class B switchboard, Class B rate.

Class C switchboard, Class C rate.

Attendant's cabinet, 10-trunk position.....	\$5 00
---	--------

Mechanical Switching Apparatus:

Connectors, each	2 50
------------------------	------

Selectors, each	2 00
-----------------------	------

Mechanical Terminals of:

Tie lines to other private branch exchange systems:

(a) When arranged to select a mechanical station..	2 00
--	------

(b) When arranged to be selected by a mechanical station	2 00
--	------

(c) When arranged to select and to be selected by a mechanical station	4 00
--	------

Dial trunks to manual switchboard.....	75
--	----

Station, with dial	1 50
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Battery and power supply, a monthly rental charge for power equipment and facilities will be made, which shall for the year amount to 30 per cent. of the cost of such equipment and facilities. The subscriber shall furnish charging current where local power equipment is installed.

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Outside Private Branch Exchange Stations — All Classes of Systems:

The rates quoted above for the various classes of private branch exchange stations are for stations in one and the same building. Stations located in another building on the same premises or elsewhere will be furnished at regular station rates, plus mileage charges as for outside extension stations, with a minimum mileage charge for one-quarter mile for any such outside station.

Night Service and Listings for Private Branch Exchange Systems — All Classes of Systems:

Special terminals and directory listings for night service, per station, so provided for and listed, \$1.75.

Special Private Branch Exchange Service for Hospitals:

Private branch exchange service will be furnished to hospitals at the regular business or commercial rates for the trunk lines and for the stations in administrative offices and at the hotel or apartment house rate for stations in patients' rooms.

Private Branch Exchanges (Privately Owned):

Both-way trunk line, individual line rate, plus 50 per cent.

Inward trunk line, individual line rate, minus 25 per cent.

Stations, each, 25 cents per month, net.

Jack Ending Lines and Plug Ending Telephones:

Jack ending lines in patients' rooms in connection with hospital private branch exchanges, or in connection with residence telephone service, as extensions, will be furnished at 50 cents per month, net. Desk telephones with plug ending cord for use with such jack ending lines will be furnished at 75 cents per month, net.

Miscellaneous Rates and Regulations.

Local calls for public pay stations, per call.....	\$0 05
Directory Listings:	
Extra names or joint user service, per month, net.....	1 00
Duplicate names, per issue.....	50

Mileage on Outside Extension Stations.

The charge for outside extension stations located elsewhere than on the premises on which the main station is installed, is \$2.00, plus a mileage charge of 60 cents for each additional quarter mile or fraction thereof.

Mileage, Excess Exchange Line.

Individual line or private branch exchange trunk line, per quarter mile or fraction thereof.....	\$0 45
Two-party line, each station, per quarter mile or fraction thereof	25
Four-party line, each station, per quarter mile or fraction thereof	20

Above classes of service are furnished beyond the base rate area only where pole line facilities are available.

Party line service as above quoted will only be established where the requisite number of subscribers can be secured.

Suspension of Service.

Upon written request in advance an individual or party line residence subscriber may have service temporarily discontinued.

An allowance of 50 per cent. of the regular charges for the service furnished will be made for the period during which the service is thus suspended. Allowance for suspension of service will not be made for a period of less than one month.

Supplemental service will not be suspended without suspending the associated main station service. Only main station and supplemental service will be suspended.

No reduction is made in charges for directory listing associated with suspended service.

Service Connection, Move and Change Charges.

Contract Term:

Main Stations:

The contract term for main stations and supplemental service shall be for one month and thereafter until terminated by thirty days' notice in writing.

Private Branch Exchange Stations:

The contract term for private branch exchange service shall be three years, except in certain cases. Where a nonmultiple switchboard of more than 50 lines capacity, a multiple switchboard or a private automatic exchange is to be installed, the contract term shall be five years.

The subscriber shall furnish the necessary conduit and mouldings and in case of drilling of solid masonry or concrete wall, he shall bear the expense thereof.

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Service Connections	Business		Residence	
	Instrument	Instrument	Instrument	Instrument
	Not in Place	In Place	Not in Place	In Place
Main stations	\$3 00	\$2 00	\$2 00	\$1 50
Extension stations ...	1 00	No Charge	1 00	No Charge
			<i>Trunk Line</i>	<i>Station</i>
Private branch exchange.....			\$3 00	\$1 00

Move Charges:

Outside Move:

Service connection charge for the exchange area for the class of service affected.

Inside Move:

Main station	\$1 00
Extension station	1 00
Private branch exchange station*.....	1 00
Private branch exchange switchboard or other switching equipment	Cost of Move

Change in Type of Equipment:

Main stations	\$1 00
Extension stations	1 00
Private branch exchange stations.....	1 00
Private branch exchange switchboard or other switching equipment, cost of making change.	

Reconnection Subsequent to Disconnection for Non-payment:

Service of subscriber at one location.....	\$2 00
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Superseding Subscriber:

Main station service with no interruption of service and no change in name or in location or type of equipment.	No Charge
With change in name only.....	\$1 00
All other cases, service connection charges.	

Private Branch Exchange Service:

Any individual, firm or corporation, may succeed to the private branch exchange service furnished another, without the payment of service connection charges by assuming the unexpired portion of the contract of the subscriber whom he supersedes.

Dated at St. Paul, Minnesota, this twenty-eighth day of February, 1922.

* Push button switches and cabling of Class D systems constitute the switching equipment of such systems and are moved at the expense of the subscriber.

MISSOURI.

Public Service Commission.

In re APPLICATION OF FARMERS' TELEPHONE COMPANY OF
HARRISON COUNTY FOR PERMISSION TO SELL PROPERTY.

Case No. 3250.

Decided March 1, 1922.

Sale and Purchase of Property Authorized.

ORDER.

The above-entitled cause is before the Commission upon the joint application of the Farmers' Telephone Company of Harrison County to sell its exchanges at Gilman City in Harrison County, Missouri, and at Edinburg and Brimson in Grundy County, Missouri, and W. W. Bain to purchase said telephone plant and property above described, for the consideration of \$14,300, and the Commission being in receipt of letters from the mayors of Gilman City and Brimson, Missouri, stating that there is no objection upon the part of said cities to the transfer, the Commission finds that a formal hearing in said case is unnecessary and that the sale should be approved.

It is, therefore, after due deliberation, ordered, 1. That the consent of the Commission be, and the same is hereby, given to the sale of the telephone utility known as the Farmers' Telephone Company of Harrison County, Missouri, consisting of the telephone exchanges at Gilman City in Harrison County, Missouri, and Edinburg and Brimson in Grundy County, Missouri, together with telephone lines extending into the adjacent community and the telephone equipment used and useful in connection with said exchange and lines by the Farmers' Telephone Company of Harrison County, Missouri, and to the purchase of said above described property by W. W. Bain, and to

the operation of said telephone utility by the said purchaser agreeable to the terms entered into by said parties as set forth in the application herein.

Ordered, 2. That nothing herein contained shall be construed as a finding by the Commission either as to the value of said property or that the value placed thereon by the parties to this transaction is reasonable and not excessive, or that the rates charged by said parties for telephone service are reasonable and not excessive or discriminatory, or that the service rendered by said utility is adequate, efficient or sufficient.

Ordered, 3. That this order shall take effect on this date and the parties to this proceeding shall notify the Commission on or before March 10, 1922, in the manner provided by Section 25 of the Public Service Commission Law, whether the terms of this order are accepted and will be obeyed.

Ordered, 4. That the secretary of the Commission shall forthwith serve by mail certified copies of this order upon the parties to this proceeding.

March 1, 1922.

In re APPLICATION OF THE SOUTHWESTERN BELL TELEPHONE
COMPANY FOR AN ORDER AUTHORIZING IT TO ISSUE PREFERRED STOCK.

Case No. 3256.

Decided March 7, 1922.

Issue and Sale of Stock Authorized.

ORDER.

Application having been made to the Public Service Commission under the provisions of the Public Service Commission Law by the Southwestern Bell Telephone Company for the consent of the Commission to the issuance by said company of 7 per cent. cumulative preferred stock in the amount of \$7,500,000, par value, said preferred stock to be

non-voting and to pay cumulative dividends at the rate of 7 per cent. per annum and to be subject to the other terms and conditions prescribed in the stockholders' resolution of said company of April 7, 1920, fully set out and filed with this Commission in Case No. 2422,* and a hearing having been duly held upon said application, before the Commission, Honorable John A. Kurtz, presiding, and it now being the opinion of the Commission:

(1) That the money to be procured by the issue of said 7 per cent. cumulative preferred stock of the said Southwestern Bell Telephone Company of the par value of \$7,500,000 is necessary to and reasonably required by said company for the acquisition of property, and the construction, addition, extension and improvement of its facilities and particularly for the purposes which are hereinafter stated in this order; and

(2) That the expenditures for said purposes are not in whole or in part reasonably chargeable to operating expenses or to income;

Therefore, it is ordered, 1. That the Public Service Commission does hereby authorize the issue by the said Southwestern Bell Telephone Company of its 7 per cent. cumulative preferred stock in the sum of \$7,500,000, par value, to be divided into shares of \$100 per share, par value, the authorization for the issue of such preferred stock being upon condition that the petitioner has authority, by virtue of its articles of association and charter with any and all amendments thereto, to issue said preferred stock.

Ordered, 2. That said issue of preferred stock is authorized upon the following conditions and not otherwise, to-wit:

First: That the said Southwestern Bell Telephone Company shall sell the said 7 per cent. cumulative preferred stock hereby authorized at not less than the par value thereof, and that the proceeds thereof shall be applied to

* See Commission Leaflet No. 102, p. 176.

the acquisition of property, and the construction, addition, extension and improvement of its facilities.

Second: That the said Southwestern Bell Telephone Company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the 7 per cent. cumulative preferred stock hereby authorized to be issued, and at the end of each six months' period said company shall make verified reports to the Commission stating the sale or sales of said preferred stock during the previous six months, the terms and conditions of sale, the amounts realized therefrom and the use and application of the proceeds; and said accounts, vouchers and records shall be open to audit and may be audited from time to time by accountants and examiners designated for such purpose by the Commission.

Ordered, 3. That this order shall take effect on this date and shall continue in force until ordered by the Commission; and that within ten days after the service upon it of a copy of this order, the said Southwestern Bell Telephone Company shall notify the Commission whether the terms of this order are accepted and will be obeyed.

March 7, 1922.

In re APPLICATION OF THE CLINTON CO. TEL. CO. 1341
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In re APPLICATION OF THE CLINTON COUNTY TELEPHONE
COMPANY FOR AUTHORITY TO ESTABLISH TOLL RATES
BETWEEN ITS EXCHANGES AND CONNECTING EXCHANGES
OF OTHER COMPANIES.

Case No. 3021.

In re APPLICATION OF THE CAMERON TELEPHONE COMPANY
FOR AUTHORITY TO ESTABLISH TOLL RATES BETWEEN ITS
EXCHANGE AND CONNECTING EXCHANGES OF OTHER COM-
PANIES.

Case No. 3024.

CLOVER LEAF TELEPHONE COMPANY *v.* CLINTON COUNTY
TELEPHONE COMPANY.

Case No. 3038.

Decided March 10, 1922.

**Former Order Modified—Toll Rates Between Applicant's Exchanges
and Exchanges of Other Companies Established.**

SUPPLEMENTAL ORDER No. 1.

On the seventh day of February, 1922, the Commission entered an order* in the above cases wherein it denied the Clinton County Telephone Company's application to be allowed to file a schedule of toll rates to cover toll service between its respective exchanges and also the exchanges not belonging to the company and located at Platte City, Camden Point, Linkville, Dearborn and Edgerton, Missouri. The application for toll service rates in these cases by the previous order of the Commission was determined largely upon the consideration that the different exchanges of the Clinton County Telephone Company were originally organized with the idea that they were to have free toll service between the respective exchanges within the entire county and belonging to this company. After issuing the order as hereinbefore set out denying the relief sought, the

* See Commission Leaflet No. 124, p. 1021.

Clinton County Telephone Company filed its motion to modify the order made by the Commission in this: that it be allowed to file a schedule of rates for toll service from certain of its exchanges to certain foreign exchanges not belonging to the Clinton County Telephone Company located at Platte City, Camden Point, Linkville, Dearborn and Edgerton. On a hearing of this motion it was brought to the attention of the Commission that in 1907 a contract had been entered into by the Clinton County Telephone Company with the Platte County Telephone Company and the Dearborn and Edgerton Telephone Company, owners of the last mentioned exchanges, providing for free toll service with the exchanges of the Clinton County Telephone Company, for a period ending the first day of May, 1910, and thereafter until thirty days' written notice should be given by either party of the termination of the contract. It was further brought to the attention of the Commission that the evidence showed that these contracts had been terminated by a written notice having been served early in the year 1921. That these exchanges of the Platte County Telephone Company and the Dearborn and Edgerton Telephone Company had never been a part of the Clinton County Telephone Company, and that, therefore, the same situation did not exist as to these foreign exchanges as existed in reference to the exchanges belonging to the Clinton County Telephone Company.

It was further brought to the attention of the Commission that the evidence showed that the lines of the Clinton County Telephone Company between the foreign exchanges and the Clinton County Telephone Company's exchanges were being congested because of this free toll service, and that the great majority of those toll lines had been built and were maintained at the expense of the Clinton County Telephone Company.

After full consideration of the matter, the Commission is of the opinion that the motion to modify filed by the Clinton County Telephone Company should be granted, and that it should be allowed to file a schedule of rates to

cover toll service from its exchanges at Plattsburg, Trimble, Gower and Agency, Missouri, to and with the foreign exchanges belonging to the Platte County Telephone Company and the Dearborn and Edgerton Telephone Company located at Platte City, Camden Point, Linkville, Dearborn and Edgerton, Missouri.

Now, therefore, after full consideration of the matter,

It is, by the Commission ordered, 1. That the order* of this Commission in the above-entitled cause, dated the seventh day of February, 1922, be, and the same is hereby, modified by striking and eliminating from said order paragraph "*Ordered*, 1. " and substituting therefor the following paragraph:

"*Ordered*, 1. That the Clinton County Telephone Company be, and is hereby, authorized to discontinue and cancel the flat rate service charge of 50 cents per month for toll service between Agency and St. Joseph, Missouri, and to file with this Commission a rate for toll messages between said points under the standard rate rules heretofore adopted by this Commission. It is ordered, further, that the application of the Clinton County Telephone Company to file and establish toll rate schedules to cover toll service between its exchanges at Plattsburg, Trimble, Gower and Agency, Missouri, with and to the exchanges of the Platte County Telephone Company and the Dearborn and Edgerton Telephone Company located at Platte City, Camden Point, Linkville, Dearborn and Edgerton, Missouri, be, and the same is hereby, granted and the said Clinton County Telephone Company is hereby authorized to file with this Commission a rate for toll service between said points under the standard rate rules heretofore adopted by this Commission, and as set out in its Exhibit No. 3, attached to its petition. It is further ordered that the application of the Clinton County Telephone Company herein in all other respects be, and is hereby, rejected and overruled."

Ordered, 2. That this order shall be in full force and effect on and after ten days from the date hereof; and that the secretary of the Commission shall forthwith serve a certified copy of the same on the interested parties, and that the Clinton County Telephone Company, on or before the effective date of this order, notify the Commission in

* See Commission Leaflet No. 124, p. 1021.

the manner prescribed in Section 25 of the Public Service Commission Law, whether the terms of this order are accepted and will be obeyed.

March 10, 1922.

In re SUSPENSION OF RATES OF THE AVILLA TELEPHONE SYSTEM.

Case No. 3234.

Decided March 14, 1922.

Increase in Rates Authorized.

SUPPLEMENTAL ORDER NO. 1.

The Avilla Telephone System has filed with the Commission its P. S. C. Mo. No. 2, cancelling its P. S. C. Mo. No. 1, containing rates and terms of service for exchange and rural service connected with its exchange at Avilla, Missouri, said schedule containing certain increases in rates. The rates asked are as follows:

<i>Business:</i>	<i>Per Month,</i>
Direct line	\$1 25
Two-party line	1 25
Four-party line	1 25
<i>Residence:</i>	
Direct line	1 25
Two-party line	1 25
Four-party line	1 25
<i>Rural or Farm Line Service:</i>	
Class A, switching	75
Class B, service	1 25

Protest having been received by the Commission signed by a number of the subscribers to the telephone service, the Commission, on the twenty-eighth day of January, 1922, suspended the effective date of the schedule for a period of one hundred and twenty days from February 1, 1922, to June 1, 1922, unless otherwise ordered by the Commission. The Commission is in receipt of a petition signed

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by a number of the subscribers, some of whom had signed the protest, and dated March 7, 1922, asking that the rates as proposed be permitted to go into effect for the reason that the rates are fair and just.

The application as filed by the telephone company shows that the rates as asked for service are reasonable, and that a not unusual or high rate of return will be allowed the owner after paying the expenses incident to the conducting of the business. The rates as asked and the schedule filed will, therefore, be approved, effective April 1, 1922. The order of suspension will be set aside and held for naught.

It is, therefore, ordered, 1. That the order heretofore entered on the twenty-eighth day of January, 1922, suspending the effective date of the schedule containing increased rates filed by the Avilla Telephone System, be, and the same is hereby, set aside and vacated, and the company is hereby permitted to put said rates in effect April 1, 1922.

Ordered, 2. That the Commission retains full and continuing jurisdiction of the parties and subject-matter of this cause to change, modify or amend said rate schedule at any time upon the filed and record evidence now before the Commission or that may hereinafter be adduced by the Commission.

Ordered, 3. That the above-named company be required to keep a full and correct account of revenues and expenses of its exchange and file a full and complete verified report thereof with the Commission for each calendar year, said annual report to be filed with this Commission not later than thirty days after the ending of such calendar year periods, (the first report to be filed for the calendar year ending December 31, 1922), which reports shall be in addition to any other reports required by law.

Ordered, 4. That this order shall be in full force and effect from and after April 1, 1922.

Ordered, 5. That the secretary of the Commission shall forthwith serve upon the parties hereto a certified copy of

this order and that the company shall on or before the thirtieth day of March, 1922, notify the Commission in the manner prescribed in Section 25 of the Public Service Commission Law, whether the terms of this order are accepted and will be obeyed.

March 14, 1922.

In re SUSPENSION OF RATES OF THE MISSOURI UNION TELEPHONE COMPANY.

Case No. 1697.

Decided March 15, 1922.

Authorized Increased Rates Made Maximum Lawful Rates.

SUPPLEMENTAL ORDER No. 4.

It appearing that the Commission, after due investigation, and after the company named above had submitted satisfactory evidence that its rates for telephone service as charged by it at its exchanges located at Clinton, Windsor, Montrose, Deepwater and Urich, Missouri, were inadequate, unjust and unreasonable, did, by its order* of record in the above-entitled case on the twenty-second day of January, 1919, permit said company to put certain increased rates into effect for a temporary period under certain terms and conditions, and,

It appearing, further, that the Commission, by its supplemental orders† Nos. 2 and 3, issued on the nineteenth day of January, 1920, and the seventeenth day of February, 1921, respectively, allowed further extension of the temporary period, unless otherwise ordered by the Commission, and,

It now appearing, further, that the above-named company did show by its verified report on the basis of one year, that the revenues from the operation had not been sufficient to pay an unreasonable rate of return upon the investment,

* See Commission Leaflet No. 87, p. 1011.

† Noted in Commission Leaflets No. 99, p. 1013, and No. 113, p. 1012.

Therefore, it is ordered, 1. That the above-mentioned company be permitted to continue to charge the present existing rates now on file with this Commission as maximum rates until otherwise ordered by the Commission; that the Commission retains full and continuing jurisdiction of the parties and subject-matter of this cause to change, modify or amend said rate schedule at any time upon the filed and record evidence now before the Commission or that may hereinafter be adduced by the Commission.

Ordered, 2. That the above-named company be required to keep a full and correct account of revenues and expenses of its exchanges and file a full and complete verified report thereof with the Commission for each calendar year, said annual report to be filed with this Commission not later than thirty days after the ending of such calendar year periods, (the first report to be filed for the calendar year ending December 31, 1922), which reports shall be in addition to any other reports required by law.

Ordered, 3. That this order shall be in full force and effect from and after April 1, 1922.

Ordered, 4. That the secretary of the Commission shall forthwith serve upon the parties hereto a certified copy of this order, and that the company shall, on or before the thirtieth day of March, 1922, notify the Commission in the manner prescribed in Section 25 of the Public Service Commission Law, whether the terms of this order are accepted and will be obeyed.

March 15, 1922.*

* Similar orders were entered in the following cases:

Missouri Union Telephone Company at its Calhoun exchange. (No. 2490).

March 15, 1922.

Dearborn Telephone Company. (No. 2740). March 15, 1922.

Hopkins Telephone Company. (No. 2301). March 22, 1922.

West Lawn Mutual Telephone Company (No. 2630). March 22, 1922.

Rushville Telephone Company. (No. 2741). March 22, 1922.

Southwestern Bell Telephone Company at its Portageville exchange. (No. 2901). March 22, 1922.

NEBRASKA.

State Railway Commission.

In re APPLICATION OF THE KEARNEY TELEPHONE COMPANY
FOR CONTINUANCE OF EXISTING RATES.

Application No. 4423.

Decided January 20, 1922.

**Authorized Increased Rates Continued in Effect Indefinitely—Reserve
for Depreciation Amounting to 10 Per Cent. of
Book Value Held Insufficient.**

FINDINGS.

Exchange rates, approved for the Kearney Telephone Company in an order* dated April 28, 1921, expire by the terms of that order on February 1, 1922. In the absence of any further order the rates as heretofore approved would expire and the old rates would again become effective. The company has made application for a continuance of the existing rates.

Throughout the entire period covered by the original order* the company has filed monthly reports with this Commission, giving in minute detail the results from operation. The Commission is therefore fully advised concerning the present condition of the company and is able to determine without further information whether or not the present rates should be continued. In this connection it should be stated that a committee of three, appointed at a meeting of the Chamber of Commerce at Kearney, held on January 18, 1922, has advised the Commission that after going over the books of the company it has concluded that the present rates are not unreasonable and the committee recommends that an extension be made under the present

* See Commission Leaflet No. 116, p. 137.

order without prejudice or waiver of any legal privilege or rights.

The record of receipts and expenditures for the years 1920 and 1921, as shown by the reports of the company filed with this Commission, are as follows:

<i>Receipts.</i>		
	1920	1921
Exchange revenues	\$50,316 50	\$55,274 78
Toll revenues	12,390 38	11,321 30
TOTAL	\$62,706 88	\$66,596 08
<i>Expenses.</i>		
Operating revenues	\$24,882 61	\$24,699 47
Current maintenance	13,377 20	11,754 81
Depreciation	11,540 54	14,406 43
Taxes	2,400 00	2,200 00
TOTAL	\$52,200 35	\$53,060 71
<i>Net Income.</i>		
Net operating income	\$10,506 53	\$13,535 37
Sundry net earnings	365 09	198 69
TOTAL NET OPERATING INCOME	\$10,871 62	\$13,734 06
<i>Deductions.</i>		
Interest	\$5,110 41	\$5,313 05
Dividends (6 per cent on \$50,000)	3,000 00	3,000 00
TOTAL DEDUCTIONS	\$8,110 41	\$8,313 05
NET INCOME	\$2,761 21	\$5,421 01

It will be noted a surplus of \$5,421 resulted from the year's operation in 1921, after paying interest on the bonds and dividends on \$50,000 of preferred stock. Operating expenses for the past year have remained stationary. While there was a slight reduction in direct operating costs and taxes, there was an increase in the expenditures for depreciation. There was a loss of about \$1,000 in toll revenue during the year due to a falling off in traffic, but

the increase in exchange revenue due to the increase in rates more than offset this. The results, however, are very close to the estimate made by the Commission in its original order.* In considering the effect of the proposed rates the Commission made allowance for certain increased expenses that would probably be realized during the year and estimated that a surplus of from \$4,500 to \$5,000 would be the result.

The surplus for 1921 is equivalent to approximately 6 per cent. of the \$89,650 of common stock outstanding. As stated in previous orders, the Commission has made no finding as to the fair value of this property. It is not necessary in this case, however, to make such finding with reference to the value of the outstanding common stock. By resolution of the board of directors, adopted at a meeting held recently, it was decided to pass to the depreciation reserve the sum of \$5,000. This action, of course, makes it impossible for any dividends to be paid on common stock for this year. In the previous order* the Commission called attention to the inadequate reserve for depreciation of this company and recommended that every effort be made to build up such reserve. The stockholders, therefore, are to be commended for their willingness to follow this recommendation of the Commission, although to do so deprives them of any return on their investment. A sleet storm in 1920 cost the company \$13,500, all of which had to be charged to the depreciation reserve. On December 31, 1921, the reserve amounted to \$23,358.20. This is less than 10 per cent. of the book value of the physical property and at that is not sufficient for complete protection of the property. The management of the company realizes, however, the necessity of establishing and maintaining such reserve and is contented to forego dividends until such results can be accomplished. The public, of course, is protected in its service by the accumulation of such a reserve, and to that extent has an interest with the stockholders in the setting aside of such a fund.

* See Commission Leaflet No. 116, p. 137.

There are no prospects of immediate reduction in expenses. Doubtless such reductions will come later, in which event it will be possible to reduce the rates. It follows, however, that the present rates may not be reduced without serious injury to the company. Due to the uncertain conditions, it is impossible to tell when conditions may change and for that reason no time limit will be placed upon this order. The rates will be continued without the time limit so that the Commission may reconsider them whenever conditions warrant. The company will be required to continue to file the monthly reports so that the Commission will be advised at all times of the results of operation.

ORDER.

It is, therefore, ordered, That the rates approved in the original order* herein, be, and the same hereby are, extended and made effective for an indefinite period, subject to such further investigations and orders as the Commission may at any time make, either upon its own motion or upon complaint.

Made and entered at Lincoln, Nebraska, this twentieth day of January, 1922.

In re APPLICATION OF THE GAGE COUNTY INDEPENDENT TELEPHONE COMPANY FOR AUTHORITY TO INCREASE RATES.

Application No. 4696.

Decided January 23, 1922.

Increase in Rates Authorized.

FINDINGS.

Effective June 1, 1920,† this Commission authorized the Gage County Independent Telephone Company to make certain increases in its rates and also directed it to sell

* See Commission Leaflet No. 116, p. 137.

† See Commission Leaflet No. 105, p. 1684.

additional stock to secure funds for certain purposes for which a sale of stock was essential. At that time the Commission told the company that it would use its best endeavors to see that the company earned a 7 per cent. return on its investment so long as it was efficiently operated.

As shown in the original order* the company is largely one of former stockholders, covering the town of Blue Springs, Nebraska, and territory surrounding Blue Springs and Wymore. Free interchange is assured with Wymore.

The company's 1921 experience has not enabled it to earn the full 7 per cent. on its obligations. As of December 1, 1921, an order† of this Commission was effective which reduced the service connection charges of this company. The company asked to be relieved of this reduction on the ground that it would be deprived of \$250 of revenue which, in the light of its experience, it could not afford. The Commission denied the request on the ground that it was a use of the earnings from service connections for a purpose to which they are not intended.

In lieu therefore of that request the company's board of directors asked the Commission for authority to increase its regular rates enough to make up the loss occasioned by the reduction in service connection charges and possibly to add a few dollars thereto. To this end it asked for an increase of 5 cents per month in farm line rates, 10 cents per month in town residence party line rates, 25 cents per month for the very few single line metallic town residence subscribers, and 25 cents per month in business telephones.

To avoid a hearing if possible we asked the company to canvass the territory carefully and ascertain if serious objection would be raised. This has been done and practically no objection exists. The rates asked for are exceedingly modest considering the extent of service offered by the company. It is one of the very economically managed properties of the State. Its continued existence is of great importance to the people of Blue Springs and the rural

* See Commission Leaflet No. 105, p. 1684.

† See Commission Leaflet No. 121, p. 94.

APPLICATION OF THE BARTLEY MUTUAL TEL. CO. -1353

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subscribers have an extent of free service at a price hardly secured anywhere else to our knowledge. The application will be approved, effective February 1, 1922, because of the emergency resulting from that being a quarterly payment date.

ORDER.

It is, therefore, ordered by the Nebraska State Railway Commission, That the Gage County Independent Telephone Company of Blue Springs, Nebraska, be, and it hereby is, authorized, effective February 1, 1922, to charge and collect the following schedule of rates for telephone service:

	<i>Gross</i>	<i>Net</i>
Individual, business	\$2 50	\$2 25
Individual, residence	2 00	1 75
Party line, residence.....	1 60	1 35
Rural	1 50	1 25

Net rates shall be charged for town service where bills are paid on or before the fifteenth of the month in which the service is rendered.

Net rural rates shall be charged where bills are paid quarterly in advance during the first month of the quarter in which the service is rendered.

It is further ordered, That all other conditions in the original order herein shall remain in full force and effect.*

Made and entered at Lincoln, Nebraska, this twenty-third day of January, 1922.

In re APPLICATION OF THE BARTLEY MUTUAL TELEPHONE
COMPANY FOR AUTHORITY TO INCREASE RATES.

Application No. 4594.

Decided January 24, 1922.

Increase in Rates Authorized — Rebate to Stockholders Permitted.

FINDINGS.

This application is presented by the Bartley Mutual Telephone Company of Bartley, earnestly requesting authority

* See Commission Leaflet No. 105, p. 1684.

to publish and collect a certain increased schedule of rates. Applicant company was organized in 1904. The earlier history of the company is decidedly obscure. Such earlier records as the company had were destroyed during the process of fumigating the telephone building because of contagious disease. The company has outstanding capital stock in amount of \$7,600, represented by 190 shares of stock, par value of \$40.00 per share, 12 of which are now held as treasury stock. The shares of stock are distributed among about 160 stockholders, the majority of whom reside in the community and receive telephone service from the company. No valuation of the company's properties has been made by the engineering department of the Commission. Neither does the company have any well defined ideas as to its worth. However, for the purposes of this application, it will not be necessary for the Commission to make a definite finding as to value.

The company, for a number of years past, has been collecting a rate of \$1.00 per month from stockholder subscribers and \$1.25 per month from non-stockholder subscribers. No distinction in rates has been made as between individual and party line service or as between business and residence service. Through the practicing of the strictest economy, and neglect in proper maintenance of its properties, the company has struggled through the war period of peak prices for labor and materials without an increase in rental charges. It now finds its treasury depleted, its monthly operations conducted at a loss and a necessary reconstruction period near at hand if the properties are to continue to function.

Facing this condition it makes application for authority to publish and collect an increased rate schedule. The accounting system as promulgated by the Commission has been studiously kept by the company and it is now able to make a very detailed and intelligent showing as to its present financial conditions. The company's annual report for the year 1920 shows a deficit in the profit and loss account of \$1,386.14. The company's monthly report for

APPLICATION OF THE BARTLEY MUTUAL TEL. CO. 1355

C. L. 125]

November, 1921, discloses total operating revenues of \$373.36. During the same period operating expenditures amounted to \$634.84. This total, however, includes an item of \$225, salary to the bookkeeper for a nine-months' period, when but one month's salary is chargeable for November. Deducting the remainder of \$200, operating expenses for the month amounted to \$434.84, making a net deficit of \$61.48, exclusive of interest and tax charges. The company's report for eleven months of 1921 discloses a condition as follows:

Total operating revenues.....	\$4,096 76
Total maintenance expenses.....	\$1,967 61
Total traffic expenses.....	1,663 11
Total commercial expenses.....	759 98
Taxes accrued	110 09
Interest accrued	114 40
	<hr/>
	\$4,616 09
	<hr/>
NET DEFICIT FOR ELEVEN MONTHS.....	\$519 33

In reviewing the items of expenditures as in the company's report, the total of which is set forth above, the Commission notes an amount of approximately \$2,000 has been expended for maintenance. This amount is perhaps not unusual. In fact, maintenance of the properties has been sadly neglected in past years and as a result the company will have large maintenance charges for the present fiscal period. Subscribers of the company who have enjoyed the service at a low rate should now be willing to pay a rate sufficient to insure the continuance of service.

The company is paying its bookkeeper \$25.00 per month. The books are ably kept and this is probably a fair wage. No charges appear covering salary for manager or other officers of the company. Such officials have undoubtedly sacrificed any stipend for their labor due to the precarious financial condition of the company. A return upon the investment to those who have made possible the existence of the company has been provided through a system of

rebating, the stockholder subscriber paying a lesser rental charge than the non-stockholder subscriber.

The company in its application requests the following schedule of rates:

	<i>Per Month</i>	
	<i>Gross</i>	<i>Net</i>
Business telephone	\$3 00	\$2 75
Private city telephone.....	2 50	2 25
Party city telephone.....	2 25	2 00
Party farm telephone.....	2 00	1 75

The company furnishes regular service from 6:30 A. M. to 9:30 P. M. Emergency calls are answered at any time during the night without additional charge. Subscribers of the company also enjoy a wide range of free service, such service being furnished to Cambridge, Indianola and Stockville. Service is partly metallic, and remainder grounded.

The Commission feels that the rate requested is a higher rate than the traffic will bear and probably a rate in excess of the company's requirements. It is quite possible that certain features of the company's reconstruction program are not properly chargeable to rates but rather are capital charges. The company should fully understand that charges for additions and betterments are capital charges and should not come from rental revenues.

The Commission proposed a schedule of rates which produce revenues as follows:

	<i>Net</i>	<i>Monthly Revenues</i>
Business, individual (18).....	\$2 00	\$36 00
Business, party (14).....	1 75	24 50
Residence, individual (15).....	1 50	22 50
Residence, party (29).....	1 25	36 25
Farm, party (288).....	1 25	360 00
TOTAL MONTHLY GROSS EXCHANGE REVENUE.....		\$479 25
TOTAL ANNUAL GROSS EXCHANGE REVENUE.....		\$5,751 00
Net annual toll (estimated).....		150 00
TOTAL ANNUAL GROSS REVENUE.....		\$5,901 00

C. L. 125]

The above schedule of rates does not distinguish between the stockholder subscribers and the non-stockholder subscribers. The stockholder subscriber, rather than through a system of rebating, would thereby secure his return through action of the board of directors at the end of a given fiscal period. This is perhaps a more equitable and businesslike procedure. However, the Commission is not insistent that this method be adopted. It will leave it to the option of the board of directors to determine whether stockholders and non-stockholders shall pay the same rate, the stockholder to receive his return by the declaring of dividends. If thought advisable, the company will be authorized to continue its present practice of providing return to stockholders by means of rebating.

The Commission is thoroughly aware of the public disapproval, and the extreme unpopularity of rate increases at this particular time of economic disturbance. The financial plight of the farmer is well known. However, here is a company which has struggled along throughout the period of prosperity, the period of high wage and material scales, with no increase in its charges for service, only now to find itself at the end of the road unless relief is forthcoming. It is firmly believed that the community is best served by a rate which allows the company, in this instance locally owned, to live and weather the storm. The community continues to enjoy telephone service and the company is rescued from the financial rocks. Furthermore, the Commission is confronted with legal restrictions which permit it to do nothing less than grant such a rate as will provide revenues for fair operating expenses, proper maintenance and depreciation charges, and a fair return upon the investment.

Applicant company requests authorization of a gross rate 25 cents in advance of the net rate, to be collected where payments are not made promptly. The Commission finds that the company has not justified this part of its application. Accordingly, the gross rate will not be authorized at this time. The company is not precluded from mak-

ing further application at a later date, supported by such additional facts, gleaned from its actual experience after a period of application of the rate schedule authorized herein, as it may deem proper. It has not previously been operating with the gross rate, so no change in this practice of the company is authorized.

It is estimated that the above schedule of rates will approximate the needs of the company. The Commission will follow very closely the financial condition of the company as reflected by its monthly reports. The schedule will be authorized, to continue until such time as the financial condition of the company permits a reduction.

ORDER.

It is, therefore, ordered by the Nebraska State Railway Commission, That the Bartley Mutual Telephone Company be, and the same is hereby, authorized and directed, effective February 1, 1922, to publish and collect the following schedule of rates:

	<i>Net, Per Month</i>
Business, individual	\$2 00
Business, party	1 75
Residence, individual	1 50
Residence, party	1 25
Farm, party	1 25

It is further ordered, That applicant company herein is authorized, through action by its board of directors, to publish and collect from stockholder subscribers a rate of 25 cents per subscriber, per month, less than the above schedule of rates, it being fully understood that the acceptance of such rebate on the part of the stockholder subscriber shall be in lieu of any and all return upon the investment. The Commission shall be notified of any such action by the board of directors, and any such action taken shall apply to all stockholder subscribers as a class.

Made and entered at Lincoln, Nebraska, this twenty-fourth day of January, 1922.

In re APPLICATION OF THE WALNUT GROVE TEL. CO. 1359
C. L. 125]

In re APPLICATION OF THE WALNUT GROVE TELEPHONE COMPANY FOR AUTHORITY TO REDUCE ITS SCHEDULE OF RATES.

Application No. 4720.

Decided February 21, 1922.

Reduction in Rates Granted on Request of Company.

FINDINGS.

This application is presented by the Walnut Grove Telephone Company of Walnut requesting authority to reduce its schedule of rates from \$1.50 per month to \$1.00 per month for all subscribers.

Applicant company is a tiny company, supplying service to 135 subscribers, 113 of whom are stockholders and 22 non-stockholders. The company advises that it is desired to operate as economically as possible, and with no thought of return upon the investment. Among its fixed expenditures are \$75.00 per month for switchboard operator and switching fees in two different towns. The secretary also receives \$2.00 per month for his wages. Any monthly balance is used in paying taxes, insurance, miscellaneous charges and maintaining the company's properties. The company advises that at the present time its exchange is in a fair physical condition.

The Commission does not have at hand sufficient information concerning this company to enable it to reach intelligent conclusions as to the sufficiency of the \$1.00 rate. However, the greater portion of its subscribers are stockholders who are directly interested in the welfare of the company. It is quite possible that such a reduction in the rate at this time will result in depreciation of the properties and attendant inferior service. It may be that these will be avoided through strict economies which the company alleges it intends to practice. The authority of the Commission will be issued. If the company's experience discloses the fact that this rate is entirely insufficient, further application may be made to the Commission.

ORDER.

It is, therefore, ordered by the Nebraska State Railway Commission, That the Walnut Grove Telephone Company of Walnut be, and the same is hereby, authorized and directed, effective March 1, 1922, to publish and collect a rate of \$1.00 per month from all subscribers, either stockholder or non-stockholder.

Made and entered at Lincoln, Nebraska, this twenty-first day of February, 1922.

OKLAHOMA.

Corporation Commission.

**L. J. DYKE *et al.* v. SOUTHWESTERN BELL TELEPHONE
COMPANY.**

Cause No. 4541 — Order No. 2023.

Decided March 9, 1922.

Decrease in Rates Ordered Due to Overloaded Line.

ORDER.

Complaint was filed in this case on February 13, 1922, alleging that the defendant company was billing subscribers on the telephone line known as the R. J. Line connected with the Oklahoma City exchange, at the rate of \$2.50 per month, bills in said amount having been rendered beginning with January 1, 1922.

The case was set for hearing March 2, 1922, and testimony was taken on said date. The evidence disclosed that the defendant company was within its rights, under Commission's Order No. 1894* in making the charge of \$2.50 for service on said line and had been authorized to make such charge since the said order became effective July 1, 1921.

The evidence discloses that said line is and has been at all times since July 1, 1921, and for some time prior thereto, heavily overloaded. The maximum number of telephones that could be afforded adequate service over said line is not to exceed 10, while the testimony shows the line to have been relied upon for service for approximately twice that number of telephones since July 1, 1921.

The testimony further showed that service was exceedingly inferior and unsatisfactory on said line, which condition the physical facts would indicate, even without testi-

* See Commission Leaflet No. 117, p. 498.

mony. It was represented by the defendant that plans were made to double the facilities on said line for the purpose of making service satisfactory and that said improvement was to be made immediately or as soon as the company could do the same in view of other urgent work on hand.

The Commission finds that the rate of \$2.50 per month, per subscriber, for service on the R. J. Line is a reasonable rate for good service but that for the service at present and heretofore since the authorization of said rates afforded, it is not a reasonable rate and should not be charged.

Wherefore, the Commission being fully advised and having given due consideration to all the facts,

It is ordered, That the rate authorized by Order No. 1894* for service on the R. J. Line connected with the Oklahoma City exchange be, and the same is hereby, suspended and collection thereof deferred and the rate of \$1.50 per month, per subscriber, applied and collected for service on said line until such time as service has been improved and made adequate.

Done at Oklahoma City, Oklahoma, this ninth day of March, 1922.

In re CHARGES FOR SWITCHING RURAL TELEPHONE LINES BY
ALL TELEPHONE COMPANIES OPERATING WITHIN THE
STATE OF OKLAHOMA.

Cause No. 3556.

Decided March 23, 1922.

Charges for Rural Switching Service Reduced.

JOURNAL ENTRY.

In 1918 the Corporation Commission was called upon by a large number of telephone companies operating in the State of Oklahoma to increase the charges in effect prior

* See Commission Leaflet No. 117, p. 498.

to and at that time for switching rural telephone lines. Numerous such applications were considered and it was found that operating costs were advancing and that such additional charges were necessary in order that the business might be transacted without loss.

On October 17, 1918, because such applications were becoming so numerous as to indicate a general demand for an increase in such charges, and after the Commission had conducted an exhaustive investigation into the trend of costs involved in affording service of the character referred to, and had found that labor and materials had increased to the extent that 50 cents per month was not an unreasonable charge for service of this character, accordingly, on said date, the Commission issued its journal entry in Cause No. 3556, October 17, 1918, authorizing the collection of the charge of 50 cents per month for rural switching service, with a minimum for any one line connected of \$15.00 per year and a maximum of \$120 per year.

Said journal entry provided that the same should be and remain in effect until such time as changed by the Commission on account of a showing that said charge would produce a greater revenue than necessary to pay operating expenditures, taxes and return on investment devoted to the public service. Said journal entry specifically excluded from its operation companies having in effect rates for rural switching service in excess of \$6.00 per year. The Commission has knowledge at the present time from information contained in reports of telephone company operation, through information touching the prevailing prices of materials and labor entering into the furnishing of such service, and from general knowledge of economic conditions at this time compared with those prevailing in October, 1918, that the need for the higher rates for rural switching service prescribed in said journal entry of October 17, 1918, no longer exists.

In accordance with the provision of the said journal entry, the same is, therefore, subject at this time to revocation, cancellation and annulment.

Wherefore, the Commission being fully informed in the premises, notice is hereby given to all telephone companies operating within the State of Oklahoma that, effective April 1, 1922, the rate for rural switching service authorized in journal entry of October 17, 1918, in Cause No. 3556, will be cancelled, and authority to charge the same revoked.

Any firm, person or corporation operating a telephone utility in the State of Oklahoma, who may be unable to comply with the requirement in this journal entry set forth, will be at liberty to have the matter set down for hearing with respect to his or its property, and such order as may be reasonable in the premises will be in his or its case made and provided.

In addition to the foregoing and in lieu of the rate therein authorized, the Commission hereby prescribes rates to govern rural switching service, where a rate greater than 50 cents per month has been in effect as follows:

Where present rate is \$12.00 per annum it shall be reduced to \$8.00.

Where present rate is \$9.00 per annum it shall be reduced to \$6.00.

Where present rate is \$6.00 and \$4.80, respectively, per annum, it shall be reduced to \$4.00 per annum.

The \$3.00 rate per annum for this class of service shall remain unchanged.

Any rate not specifically mentioned above not exceeding \$4.00 per year shall be reduced 33 $\frac{1}{3}$ per cent. provided no rate shall be fixed at an amount lower than \$4.00 per year, per station.

Where the rate is fixed at \$8.00 per annum the minimum rate for any one line switched shall be \$36.00 per year, and the maximum \$160 per year.

Where the rate is fixed at \$6.00 per annum the minimum rate for any one line switched shall be \$21.00 per year, and the maximum \$120.

Where the rate is fixed at \$4.00 per annum the minimum rate for any one line switched shall be \$15.00 per year, and the maximum \$80.00 per year.

Where the rate is fixed at \$3.00 per annum the minimum

rate for any one line switched shall be \$15.00 per year, and the maximum \$60.00 per year.

Existing maximum rates for trunk or clear lines connecting service lines with the exchange switching the same, shall not be disturbed at this time.

The foregoing schedule shall become effective as of April 1, 1922, and remain in effect pending further order of the Commission in the premises.

Any and all orders of this Commission prescribing rates for service of the character involved herein which may be in conflict herewith, are hereby superseded.

It is further ordered, That telephone companies shall have the right to require all rural party telephone lines to pay switching service charges quarterly in advance; that such companies shall have the right to require the entire switching service charges due from each line to be paid on the tenth day of the first month of the quarter in which such charges become due, service to be extended up to and inclusive of the fifteenth day of the same month, but in the event of the charges not being paid on the fifteenth of said month, the company shall have the right to disconnect such delinquent line and refuse further service to the same until the charges due are paid; and that telephone companies shall have the right to require each rural party telephone line to select one of its members to transact the business of such line with the telephone company switching the same.

Done at Oklahoma City, Oklahoma, this twenty-third day of March, 1922.

In re APPLICATION OF THE SOUTHWESTERN BELL TELEPHONE
COMPANY FOR AMENDMENT AND MODIFICATION OF ORDER
No. 1894.

Cause No. 4485 — Order No. 2031.

Decided April 1, 1922.

**Installation of Coin Boxes Authorized in Places of Business where
Regular Business Telephone is Accessible to Public.**

ORDER.

Order No. 1894* of this Commission, effective July 1, 1921, provided a schedule of rates for telephone service for residence and business purposes in the city of Oklahoma City.

On or about December 12, 1921, the applicant herein filed application for amendment and modification of said order representing in its application, that the applicant does not seek an increase in rates provided in said Order No. 1894,* but asks modification and change of said order only with relation to so-called public and semi-public telephones.

The application sets forth provisions in the application for service as used by the Southwestern Bell Telephone Company and quotes from the general exchange tariff as issued and on file with the Corporation Commission showing rules and regulations applying to all subscribers' contracts defining the persons entitled to the use of telephone service under said contract and restricting use of such telephones to such persons as therein defined.

At the hearing before the Corporation Commission resulting in the promulgation of Order No. 1894,* it was requested of the Commission that all business houses, such as drug stores, cigar stands, billiard hall, etc., having telephones paying the regular business rates but used by patrons or the public without charge, be required to install coin boxes. The Commission did not approve of such suggestion, its failure to do so being based upon the fact that

* See Commission Leaflet No. 117, p. 498.

general use of business telephones without charge had been permitted in Oklahoma City in the past, and the Commission expressing the opinion that under average circumstances a subscriber should be at liberty to permit any use of his telephone that he might consider of advantage to himself. Order No. 1894* with further reference to this subject, reads as follows:

"However, such a view should not be construed as an approval of an abuse of the use of a telephone. A rule of reason must prevail in the premises. Where the fact is established that free use has imposed a burden upon the public by requiring the operating staff of the company to handle an excessive number of calls from a particular telephone so that the cost of serving that telephone is clearly excessive, the patron and the company may agree upon a special rate to be paid by the subscriber, or, if the parties are unable to agree, the situation may be referred to the Corporation Commission and a special rate will be prescribed after due investigation."

The applicant in the present case has represented to the Commission that pursuant to authority granted in the provision last quoted it has installed coin box telephones in numerous business houses in Oklahoma City where such free general use of telephones had been permitted previously; that up to the present time approximately 100 such installations have been made and that in only one instance wherein the telephone company considered such installation necessary had serious objection been offered thereto by the subscriber.

At the hearing in the present case, the matters involved in this application were thoroughly gone into in testimony. The secretary and treasurer of the Retail Druggists Association were present at the hearing and corroborated the statement of counsel for the telephone company that the company had practically unanimous consent of the druggists of the city to the installation of coin box telephones and restriction of the public in the matter of the use of telephones without charge and that most of the subscribers concerned appeared to be pleased with the new service.

With reference to the alleged excessive use of the telephone in the store of the druggist who objected to the installation of pay service for public use in his place of business, the commercial engineer of the telephone company testified that a peg count of calls in the store concerned for a period of two and a half days showed, for the first half day 217 calls, the second day which was Saturday, 402 calls, and the third day 240 calls, or an average of about 340 calls daily. The merchant who objected to the proposed change of service insisted that the count of calls had been made on days when business was exceedingly heavy and that he did not believe the figures submitted represented the average use of his telephone. The figures above set forth, however, are the only figures before the Commission on the subject and the Commission is of the opinion that a similar count of calls over the telephone in question would show excessive use on any average day, and that the telephone company should not be required to handle such a volume of business of the character referred to at the regular business telephone charge of \$7.50 per month. The Commission is of the opinion that the arrangement heretofore made between the telephone company and subscribers in whose place of business coin box telephones are installed should be approved, except as to the rates applicable, and is further of the opinion that the telephone company should be permitted to install coin box telephones in any place of business where the regular business telephone is accessible to and used by the general public without charge, and to require that regular business telephones be so placed as not to invite free general use.

The order herein will prescribe the rates which the Commission considers reasonable and proper for the service hereby authorized.

Wherefore, the Commission being fully informed and having given due consideration to all of the facts,

It is ordered, That Order No. 1894* be, and the same is

* See Commission Leaflet No. 117, p. 498.

hereby, modified and amended by establishing in addition to the regular business telephone service provided by said order for which a charge of \$7.50 per month is authorized, and a measured service of \$5.00 per month with limit of 80 calls per month, all out-calls in excess of 80 for any one month to be charged at 3 cents each, business classifications of service, and rates applicable thereto, as follows:

Public pay station telephone service with coin box attachment, without guaranty, subscriber to receive a commission of 20 per cent. upon all receipts for local calls at 5 cents each and 10 per cent. of all receipts at such station from long distance calls, or

Semi-public pay station telephone service with coin box attachment, with guaranty of 17 cents per day or \$5.00 per month, subscriber to receive commission as in the case of public pay station except that commission shall be earned only on receipts in excess of guaranteed amount. In-coming calls shall be free.

The company shall be permitted to require installation of public service in addition to regular service in all cases where telephones installed on regular basis are accessible to and used by the general public and may require that such telephones be made not so accessible.

Installations of telephones, public and semi-public, heretofore made, are hereby ratified and approved.

This order shall be in full force and effect on and after the first day of April, 1922.

April 1, 1922.

SOUTH DAKOTA.

Board of Railroad Commissioners.

In re APPLICATION OF THE DAVISON COUNTY COOPERATIVE
TELEPHONE COMPANY FOR AUTHORITY TO INCREASE ITS
TELEPHONE RENTAL RATES.

Docket No. 4609.

Decided March 10, 1922.

Increase in Rates Authorized — Service Connection Charges Established.

REPORT.

The Davison County Cooperative Telephone Company applies to the Board for authority to increase its telephone rental rates at its exchange at Ethan, South Dakota, and upon its rural party lines connected therewith. The application shows that the rate now in effect is as follows:

	<i>Per Month Per Telephone</i>
Business, main line.....	\$2 00
Residence, party line.....	1 25
Rural party line.....	1 25
Desk sets, extra, 25 cents.	

Authority is requested to establish a rate of 25 cents per month, per telephone, in advance of the present rates for all classes of service.

Hearing upon the application was held at Ethan, the company being represented by *Mr. William Carleton*, president, *Mr. J. J. Walters*, treasurer, *Mr. John H. Hohn*, secretary, and others. *Mr. Charles Stuckle* and *Mr. A. R. Meyers* represented the Rosedale and Wortham Telephone Company, which company receives switching service through the Ethan exchange.

The record shows that the applicant company operates a telephone exchange at Ethan, Davison County, South

Dakota, and several rural party lines connected with the exchange.

On January 1, 1921, the Davison County Cooperative Telephone Company which had been in operation for a number of years, during which time it had been engaged in rural telephone service only, took over and absorbed the Ethan Telephone Company which owned and operated the exchange at Ethan. The stock of the Ethan Telephone Company was cancelled and the stockholders in that company received an equal amount of stock in the Davison County Cooperative Telephone Company, each company assuming its own indebtedness. Under this reorganization the Davison County Cooperative Telephone Company had at the time of the hearing, outstanding capital stock in the sum of \$9,970. Mr. John H. Hohn, the secretary, submitted an inventory of the property showing a total appraised value of \$8,670. From a careful consideration of the record cost of construction, as shown by the records of the company, and of all the information before the Board, and from a comparison with valuations of other properties of similar size and character, determined by the Board's engineering and statistical force, the Board is of the opinion, and finds, that, for the purposes of this case, \$8,600 is a fair and reasonable valuation of the company's plant in use and useful in the conduct of its business and devoted to the public service.

The following is a comparative statement of operating revenues based upon the number and classification of subscribers receiving service at the date of the hearing, at the rates now in effect, and at the rates applied for:

1372 SOUTH DAKOTA BOARD OF RAILROAD COMMISSIONERS.

[S. D.]

	<i>Present Rates</i>		<i>Rates Applied For</i>	
	<i>Rate</i>	<i>Amount</i>	<i>Rate</i>	<i>Amount</i>
<i>Business Subscribers:</i>				
Desk sets (17).....	\$2 25	\$459 00	\$2 50	\$510 00
Wall sets (11).....	2 00	264 00	2 25	297 00
<i>Residence Subscribers:</i>				
Desk set (1).....	1 50	18 00	1 75	21 00
Wall sets (46).....	1 25	690 00	1 50	828 00
<i>Rural Subscribers:</i>				
Wall sets (136).....	1 25	2,040 00	1 50	2,448 00
<i>Switching Service:</i>				
Two exchange (72).....	2 25	162 00	2 25	162 00
One exchange (109).....	3 00	327 00	3 00	327 90
Commission on toll mes-				
sages		480 00		480 00
TOTAL		\$4,440 00		\$5,073 00

From a careful consideration of the record in this case and of all the information at hand, the Board finds and determines the following to be a fair and reasonable estimate of the operating expenses of the applicant company for the ensuing year:

Maintenance and depreciation.....	\$1,118 00
Traffic expenses	1,710 00
General expenses	1,030 00
TOTAL OPERATING EXPENSES	\$3,858 40
Taxes	90 52
TOTAL OPERATING EXPENSES AND TAXES.....	\$3,948 92

Deducting the estimated operating expenses and taxes, \$3,948.92, from the operating revenues of \$4,440, based upon the rates now in effect, the net operating income would be \$491.08. Allowing the company a return of 7 per cent. on the fair value of \$8,600 as found herein, or \$602, which amount we consider reasonable, there is shown a deficit of \$110.92. This showing clearly indicates that some increase in rates is justified. It therefore becomes necessary to determine the class of service that should bear

the increased rate to provide the additional revenue. A comparison of the rates of this company with rates of other companies at exchanges of similar size and character, indicates that the rate for residence service at Ethan is low and out of line.

From the foregoing statement of facts found, the Board concludes that the necessity for the increase requested is justified in part; that an order should be entered in this proceeding authorizing the Davison County Cooperative Telephone Company to establish, file and put into effect, rates not exceeding the following:

	<i>Per Month</i> <i>Per Telephone</i>
Business, main line, wall type.....	\$2 00
Residence service, wall type.....	1 50
Rural, party line, wall type.....	1 25
Desk sets, 25 cents per set, extra.	

It was stated at the hearing that there was a considerable amount of money due the company in the form of uncollected rentals. This is a matter which should be given careful attention by the officers of the company, and the Board concludes that the company should be given permission to adopt a discount rule whereby it will be permitted to bill its subscribers 25 cents per month, per telephone, in excess of the rates approved herein, from which a discount of 25 cents per month, per telephone, shall be granted when the exchange rental is paid monthly in advance, on or before the fifteenth day of the current month, and when the rural party line rental is paid quarterly in advance, the quarterly payment to be paid on or before the last day of the first month of the current quarter.

The company asked permission to establish a charge of \$2.00 for each installation, also a charge of \$2.00 for moving the instrument from one building to another, and a charge of \$1.00 for moving the instrument from one place to another on the same premises. The Board is of the opinion that some charge covering these special services is justified and that the following schedule of charges which

the Board has heretofore found to be just and reasonable for such services at exchanges of similar size should be permitted:

<i>Service Connections.</i>	<i>Instrument</i>	
	<i>In Place</i>	<i>Not In Place</i>
Business station	\$1 00	\$2 50
Residence station	1 00	1 50
Rural party line station.....	1 00	1 50

Let an order be entered accordingly.

Done in regular session at the city of Pierre, the Capital, on this tenth day of March, 1922.

ORDER.

On this date the Board having completed its investigation and having made and filed its report containing its findings of fact and conclusions thereon, a copy whereof is hereto annexed, hereby referred to and made a part hereof, and being fully advised in the premises and sufficient cause for this order appearing,

It is, therefore, ordered, That the Davison County Cooperative Telephone Company be, and it is hereby, authorized to establish, file and put into effect, telephone rental rates not exceeding the following:

	<i>Per Month Per Telephone</i>
Business, main line, wall type.....	\$2 00
Residence service, wall type.....	1 50
Rural, party line, wall type.....	1 25
Desk sets, 25 cents per set, extra.	

It is further ordered, That permission be, and the same is hereby, granted the said Davison County Cooperative Telephone Company to bill all subscribers 25 cents per month, per telephone, in excess of the rates approved herein, from which a discount of 25 cents per month, per telephone, shall be granted when the exchange rental is paid monthly in advance, on or before the fifteenth day of the current month, and when the rural party line rental

is paid quarterly in advance, the quarterly payment to be paid on or before the last day of the first month of the current quarter.

It is further ordered, That permission be, and the same is hereby, granted the said Davison County Cooperative Telephone Company to establish, file and put into effect, the following schedule of charges:

<i>Service Connections.</i>	<i>Instrument</i>	
	<i>In Place</i>	<i>Not in Place</i>
Business station	\$1 00	\$2 50
Residence station	1 00	1 50
Rural, party line, station.....	1 00	1 50

March 10, 1922.

In re APPLICATION OF THE SOUTH DAKOTA FARMERS MUTUAL
TELEPHONE COMPANY FOR AUTHORITY TO INCREASE ITS
TELEPHONE RENTAL RATES.

Docket No. 4413.

Decided March 11, 1922.

**Increase in Rates Not Justified Where Under Present Rates Return of
7 Per Cent. Was Earned.**

REPORT.

This application came regularly on for hearing at Doland, Spink County, South Dakota, on Tuesday, March 5, 1921. The applicant company was represented by *Mr. Al Fryer*, president, *Mr. A. V. Zarneke*, secretary, and treasurer, *Mr. Ed. Eppert* and *Mr. H. H. Bird*, directors. There were about 20 subscribers present.

The South Dakota Farmers Mutual Telephone Company owns and operates a rural telephone system in eastern Spink County, South Dakota, receiving switching service at the Doland exchange, which is owned by the Dakota Central Telephone Company. At the time of the hearing the officers of the company were unable to furnish any testimony dis-

closing what the expenditures of the company had been for the preceding year.

At the close of the hearing the applicant was requested to furnish information relative to the costs of operation and maintenance, the amount of supplies on hand, the amount of money due the company, the amount of indebtedness outstanding, together with the annual income, and a statement of the purposes for which the revenues of the company had been used. This information has never been furnished. Furthermore, the company has wholly failed to furnish the annual report for the year 1920 and the annual report for the year 1921, as required by law.

Upon examining the annual reports on file with the Board, the last one of which was made in 1919, and making a comparison with other plants of a similar size and character, the Board is of the opinion, and finds, that, for the purposes of this case, there is a plant of the value of \$6,000 in use and useful for telephone service.

From such information as is at hand, the operating expenses of the company are estimated as follows:

Maintenance and depreciation.....	\$720 00
Traffic expenses	610 40
General expenses	100 00
Miscellaneous expenses	50 00
<hr/>	
TOTAL OPERATING EXPENSES.....	\$1,480 40
Estimated taxes	50 00
Return, 7 per cent. on \$6,000.....	420 00
<hr/>	
TOTAL INCOME DEDUCTIONS.....	\$1,950 40

The revenues of the company, which are derived solely from telephone rentals, amount to \$1,995 per year, there being 133 subscribers at \$1.25 per month. Thus it will be seen that even under the present rates there should be a surplus of \$44.60 per year. It is therefore apparent that the application should be denied.

The evidence at the hearing disclosed the fact that a large percentage of the subscribers had paid their telephone

In re APPLICATION OF WESSINGTON SPRINGS TEL. CO. 1377
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rental for nearly a year in advance. Notwithstanding this, the testimony showed the company was practically without funds on hand, besides being heavily in debt. The exact amount of these debts was not obtainable.

It is the opinion of the Board that the applicant should be required to open and keep a set of books in accordance with the system of accounts promulgated by this Board.

Let an order be entered accordingly.

Done in regular session at the city of Pierre, the Capital, this eleventh day of March, 1922.

ORDER.

On this date the Board having completed its investigation and made and filed its report containing its findings of fact and conclusions thereon, a copy whereof is hereto annexed, hereby referred to and made a part hereof, and sufficient cause for this order appearing,

It is, therefore, ordered, That the application of the South Dakota Farmers Mutual Telephone Company for authority to increase its telephone rental rates be, and the same is hereby, denied.

It is further ordered, That the applicant telephone company be, and it is hereby, required to open and keep a set of books in accordance with the system of accounts promulgated by the Board.

March 11, 1922.

In re APPLICATION OF THE WESSINGTON SPRINGS TELEPHONE
COMPANY TO INCREASE RENTAL RATES.

Docket No. 4815.

Decided March 25, 1922.

Increase in Rates Authorized.

REPORT.

In this case application was filed by the Wessington Springs Telephone Company in which authority is

requested to make effective, the following schedule of telephone rates:

	<i>Per Month</i>
Business, main line.....	\$2 00
Residence, main line.....	1 25
Residence, party line.....	1 10
Extension sets, wall type, per set.....	1 00
Extension bells	25
Desk sets, extra, 25 cents.	
	<i>Per Year</i>
Rural, party line.....	\$16 00

and that permission be granted the company to establish and enforce the discount rule as applied to the collection of telephone rentals.

Upon due notice, hearing was held at Wessington Springs. The company appeared by *Messrs. Chas. R. Hatch* and *L. F. Russell*, its attorney and president, respectively. No one formally appeared for either the city of Wessington Springs, or on behalf of the subscribers of the company.

The record shows that the present rates were fixed by this Board in Docket F-4,* in its order of July 29, 1913; that since the issuance of said order the expenses of the company have materially increased. Illustrative of the increased expenses, the record shows that four operators were employed in 1913 at a monthly wage of \$25.00, and one operator at a monthly wage of \$10.00; while at the present time the company employs four operators at \$45.00 per month and one operator at \$30.00 per month. This alone makes an increase in operating expenses of \$100 per month, or \$1,200 per year. No dividends have been declared or paid since 1917, for the reason that the revenues of the company have been insufficient to meet dividend requirements.

A careful study and analysis of the affairs of the company was made by the Board's statistician, and as a result of this study, it is shown that the company has been. and

* See Commission Leaflet No. 24. p. 458.

is at the present time, operating at a loss, and that if the application of the company is granted, its annual revenue will be increased \$962.30; that with this increased revenue the company will find it necessary to practice economy in managing its affairs.

While no one appeared at the hearing in opposition to the application, in discussing the situation with individual subscribers, it was quite apparent that there is considerable dissatisfaction with existing service conditions. There appears to be considerable dissatisfaction due to inability of subscribers to get central. It is claimed that long delays occur and it appears to be the contention of the subscribers that the trouble is caused by the poor condition of the switchboard facilities and by the inattention of operators. Loafers and idlers should be denied the privilege of visiting in the operator's room. The management should require that the switchboard be thoroughly overhauled and put in efficient condition. The lineman should be provided with separate quarters in which to perform his general repair work, in order that the operators may perform their required duties without disturbance. The company will be expected to utilize its facilities to the best advantage, in order that efficient service may be provided. This it should certainly do, without an order requiring it to do so.

The record shows that the company is carrying on its books past due rentals amounting to \$5,012.40. This amount is largely due from rural subscribers. This is a situation that should be corrected. If subscribers had promptly paid their bills, the company would have been in position to have paid its current operating expenses and taxes. This it has been unable to do, as it appears that the company has bills past due amounting to \$2,223.42.

From all the evidence before us, we are of the opinion, and find, that the application of the Wessington Springs Telephone Company should be granted, and the company authorized to establish and put into effect on and after April 1, 1922, rates not exceeding the following:

1380 SOUTH DAKOTA BOARD OF RAILROAD COMMISSIONERS.

[S. D.]

	<i>Per Month</i>
Business, main line.....	\$2 00
Residence, main line.....	1 25
Residence, party line.....	1 10
Extension sets, per set.....	1 00
Extension bells	25
Desk sets, extra, 25 cents.	
	<i>Per Year</i>
Rural, party line.....	\$16 00

That permission should be granted the company to bill its subscribers 25 cents per month, per telephone, in excess of the rates last above quoted, from which a discount of 25 cents per month, per telephone, shall be allowed where the exchange rental is paid monthly in advance, on or before the fifteenth day of the current month, and that a discount of 25 cents per month, per telephone, shall be allowed where the rural party line rental is paid quarterly in advance, payment to be made on or before the last day of the first month of the current quarter, and that the company be granted permission to establish and enforce a rule or regulation whereby a subscriber in arrears thirty days after the expiration of the period covered by "discount provision shall have the service discontinued and the telephone instrument removed.

Let an order be entered accordingly.

Done in regular session at the city of Pierre, the Capital, on this twenty-fifth day of March, 1922.

ORDER.

On this date the Board having completed its investigation and having made and filed its report containing its findings of fact and conclusions thereon, a copy whereof is hereto annexed, hereby referred to and made a part hereof, and being fully advised in the premises and sufficient cause for this order appearing,

It is, therefore, ordered, That the Wessington Spring Telephone Company be, and it is hereby, authorized to

establish, file and put into effect, on and after April 1, 1922, telephone rental rates not exceeding the following:

	<i>Per Month</i>
Business, main line.....	\$2 00
Residence, main line.....	1 25
Residence, party line.....	1 10
Extension sets, per set.....	1 00
Extension bells	25
Desk sets, extra, 25 cents.	
	<i>Per Year</i>
Rural, party line.....	\$16 00

It is further ordered, That permission be, and the same is hereby, granted the Wessington Springs Telephone Company to bill its subscribers 25 cents per month, per telephone, in excess of the rates above quoted, from which a discount of 25 cents per month shall be allowed where the exchange rental is paid monthly in advance, on or before the fifteenth day of the current month, and that a discount of 25 cents per month, per telephone, shall be allowed where the rural party line rental is paid quarterly in advance, payment to be made on or before the last day of the first month of the current quarter.

It is further ordered, That permission be, and the same is hereby, granted the said Wessington Springs Telephone Company to establish and enforce a rule or regulation whereby a subscriber in arrears thirty days after the expiration of the period covered by the discount provision shall have the service discontinued and the telephone instrument removed.

March 25, 1922.

VIRGINIA.

State Corporation Commission.

In re APPLICATION OF THE ALBEMARLE TELEPHONE COMPANY FOR INCREASE IN RATES.

Case No. 1340.

Decided November 29, 1921.

Value Determined—Allowance Made in Valuation of Ten Dollars Per Mile for Rights-of-Way—Going Value Allowed Based on Six Dollars Per Station—Federal Income Tax Not Allowed as Operating Expense—Increase in Rates Authorized.

The Albemarle Telephone Company applied to the Commission for authority to increase its rates for service.

In placing a valuation on applicant's property, the Commission took the value of \$183,566 as of October 1, 1920,* and added thereto net additions made to the property between October 1, 1920, and June 30, 1921, an amount for rights-of-way based on a value of \$10.00 per mile, going value at the cost of attaching business on the basis of 2,149 stations at \$6.00 per station and other omissions from the former valuation, and found the value of the property as of September 30, 1920, to be \$233,800.

The Commission further found that the company had in the past two years used its entire depreciation reserve in extending its plant to meet the demand for additional service; that in view of the fact that each additional telephone installed was being operated at a loss, these extensions had proved disastrous; that the probable revenues for the year 1921 based on the actual experience of the first nine months of the year would amount to \$67,522.77; that after setting aside 5.5 per cent. for reserve for depreciation, it appeared that the net loss from operation during the year 1921 under the present rates would be approximately \$371.97; that there was no incentive for the company to provide additional capital for the purpose of installing more telephones when each telephone must be operated at a loss; that it was to the interest of the public that the rates should be increased.

Held: That the use of the reserve for depreciation to take care of new and unprofitable business instead of to replace portions of the plant as they wear out was a wrong policy and would lead to trouble unless discontinued;

* See Commission Leaflet No. 112, p. 829.

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That federal income tax should not be allowed as an operating expense since it is supposed to be a direct contribution from net earnings of individuals and corporations to war expense;

That, effective December 1, 1921, applicant should be authorized to place in effect the following rates: business, independent line, \$54.00, party line, \$48.00; residence, independent line, \$33.00, two-party line, \$27.00; the above rates to apply within a radius of one mile from the central office and to continue its present mileage charge of \$4.00 per annum beyond the one mile limit.

OPINION.

On September 1, 1921, Albemarle Telephone Company filed with the Commission petition for authority to increase its rates for service. Following notice to the public through newspaper advertising, protest was filed by the Charlottesville Chamber of Commerce, and the application was heard and submitted in the courtroom of the Commission in Richmond on October 18.

After a hearing on a previous application, the Commission on December 31, 1920,* denied this company an increase in its rates, and the reasons therefor were set forth in writing in the form of an opinion.

VALUATION OF PROPERTY.

In the opinion* of December, 1920, the value of the property of the Albemarle Telephone Company, used and useful in the service of the public, for rate-making purposes, as of October 1, 1920, was fixed at \$183,566.

Mr. J. K. Johnston, utilities engineer, testified at both hearings. On the later occasion he again presented the valuation submitted by him at the hearing of the former case, as of October, 1918, based on reproduction new, using an average of unit prices during the five years, 1914-1918, inclusive. To this Mr. Johnston in the recent case added new property acquired between October, 1918, and June 30, 1921, at actual cost. Based evidently upon the decisions of this Commission in Case No. 1138, *Application of Virginia Railway and Power Company for Increased Rates on*

* See Commission Leaflet No. 112, p. 829.

Light and Power, and in Case No. 1278, *Application of Lynchburg Traction and Light Company for Advance in Electric Light and Power Rates, Gas Rates and Street Railway Fares*, Mr. Johnston added an appreciation in value over the 1916 basis of 10.8 per cent. Engineering and superintendence was placed at 15 per cent.; going value at the cost of attaching business on the basis of 2,149 stations at \$6.00 per station; and working capital at one-twelfth of annual payroll and one-twelfth of material and supplies. He also added certain items omitted in the former appraisal, being additional value to storeroom property, two formerly unreported booths and equipment, an item for blasting pole holes in rock, and rights-of-way at \$12.00 per mile. The total of these additions, less depreciation, was only \$7,370.29.

Mr. Johnston again argued that his method of personally inspecting every part of the property is more correct as a basis for determining accrued depreciation than the percentage method can possibly be. In order, however, to meet the views expressed by the Commission in its determination of the company's former application, he depreciated the depreciable items 20 per cent., though contending that the property is about 88 per cent. maintained.

It is very evident that Mr. Johnston has made a most careful appraisal and one which is apparently deserving the confidence of the Commission. We have no doubt, therefore, that he is quite correct in his estimate of the manner in which this company's property has been constructed and maintained, which he discusses in part, as follows:

"Now the Albemarle Telephone Company is a company that is very progressive. It is not like a great many companies. This company is more like the Bell companies. * * * I do not believe the people of the community have appreciated the fact that they have got one of the very best plants. I am not coming here to say these things just to be saying them. I would not say them if I did not believe them. I do know them to be facts, though. I know that I am speaking the truth. This plant is one of the best in the country any place, and one of the best I have ever had opportunity to go over." (Page 8 of transcript.)

Mr. Johnston stated that his average unit price, 1914-1918, averages less than the unit prices for 1916 and may be regarded as the pre-war base. Johnston Exhibit No. 1 shows by comparison the appraisal value of the property of the Albemarle Telephone Company as compared with the values of other companies, and mainly the Albemarle values are lower.

Explaining the item of engineering and superintendence, Mr. Johnston stated (page 21 of transcript) that it included the usual items taken care of under this head, no overheads having been placed in the structural reproduction values.

Based upon the facts and theories outlined briefly herein, Mr. Johnston presented as the fair value of the property of the Albemarle Telephone Company as of June 30, 1921, the sum of \$266,972.92.

It was in evidence that the company, because of its deficiency in earnings, is unable to finance extensions and additional equipment necessary to meet the demand for telephone service in Charlottesville and vicinity. Names of applicants for telephone service to the number of 210 were presented to the Commission. Mr. Johnston estimated that in order to properly serve the public the company must spend \$40,043 in the city of Charlottesville and \$22,468 in Albemarle County outside the city, making a total estimate, termed by him conservative, of \$68,762,* which the company must raise and expend. Mr. Johnston testified that in his judgment this should be added to the fair value in order to attain a rate base.

It is rarely found satisfactory to calculate future expenditures in fixing a fair value for the reason that developments are necessarily uncertain. Furthermore, President Twyman of the Albemarle company testified that in order to get more money the earnings must be more satisfactory. This would seem to be a better basis for the financing of extensions than to add future construction to the rate base.`

* So appears in original.

ELEMENTS OF VALUATION.

The Commission has approved in certain other cases consideration of what might be termed a normal appreciation in values in lieu of abnormal appreciation, due to war time conditions. For reasons set forth in the opinion* of December 31, 1920, the percentage of such appreciation must differ depending upon the year used in ascertaining the unit costs.

The omissions from the former valuation will be allowed except that the rights-of-way will be valued at \$10.00 per mile.

Upon Witness Johnston's more detailed explanation of his method of determining overheads, the difference between his estimate and that used by the Commission in the former case will be allowed.

The item of going value must be considered and its principle has been well established, we think, by court decisions. The amount claimed by the company is as reasonable as any the Commission has received and will, of course, be subject to deduction by the sum allowed in the preceding case of this company.

We do not look with so much favor upon further additions to the working capital, although the entire amount for this item is small. Since the company collects quarterly in advance for telephone rentals, in a sense its customers finance a large part of its operations.

The net additions to the property between October 1, 1920,* (the date upon which the previous valuation is based) and June 30, 1921, giving the company credit for new plant installed and charging against it plant retired, amount to \$13,710.71. By Supplemental Exhibit No. 1 it is shown that the net additions to the plant from July 1, 1921, to September 30, 1921, amount to \$2,913.56. These sums will be added to the valuation in order to bring it down to the latest available basis.

* See Commission Leaflet No. 112, p. 829.

THE COMMISSION'S CONCLUSION.

Based upon the additional evidence before it and upon the views outlined herein, the Commission finds, and it is so ordered, that the fair value of the property of the Albemarle Telephone Company for rate-making purposes, as of September 30, 1921, is \$233,800.

THE COMPANY'S FINANCIAL CONDITION.

The hearing developed a series of reasons advanced by the company, in addition to valuation questions raised and hereinbefore discussed, to justify its demand for increased revenue notwithstanding the denial of its petition less than a year ago. Evidence was presented to show that the cost of telephone equipment has not been materially reduced. It was further stated by President Twyman on the stand, in response to questions from his counsel, as to his higher operating cost in 1921 than in 1920, that the situation was largely due to labor conditions. We quote as follows from pages 58 and 59 of the transcript:

"When the war came on, we were fairly well equipped with what is known as ready-to-serve equipment-cable, etc., to take care of any subscribers at low prices. We realized war was on us, and in 1917, just before the crisis, we laid in a large supply of materials at a low price, and for two and one-half years, six months prior to government control, and during that time, we drifted through with low prices. We were somewhat isolated. We were peculiarly well situated. We had four men that were married and had their homes here and they worked throughout the war period for us without one dollar's increase in salary, when they could have gone to Camp Lee and commanded \$10.00 or \$12.00 a day. For our operators we had a few married ladies and they stuck to us. We gave inferior service, in a sense, but by a careful conservation of our forces, we operated throughout. By the time the government was half way through their control of the situation, our employees then began to demand more money, and from that time on we have had to meet wage demands that were paid next door to us in Staunton and other cities, and at this time we are below the wage scale. We require our men to work ten hours a day, and in Staunton they work only eight. Our operators get nothing for overtime on Sundays or holidays or for any overtime, whereas Staunton makes these concessions, and, of course, it is right hard to keep up the morale under these circumstances, but we are fighting with all the force we can."

Page 19½ of the statement prepared by Accountant Van Emmon indicates that operators' wages increased from \$8,737.45 for the year July 1, 1919, to June 30, 1920, to \$12,497.60 in the year July 1, 1920, to June 30, 1921, an advance of \$3,750.15, or between 40 and 50 per cent. Advances in the salary of yearly employees in the year amounted to \$1,859.58. There was no increase in general office salaries, and other items show a probably reasonable higher cost because of extended business. Mr. Twyman expressed the further opinion that any wage decrease by his company is very improbable and that it is now below the scales paid in other cities.

According to the evidence, the Albemarle Telephone Company has in the past two years used its entire depreciation reserve, consisting mainly of Liberty Bonds, in extending its plant to meet the demand for additional service. In view of the fact that each additional telephone installed is being operated at a net loss, these extensions have proven disastrous to the company. The fact is well known that the larger the number of subscribers served, the greater the cost of operating each telephone. Other utilities show a decrease in operating costs with increased consumption, but the contrary is true of the telephone business. Therefore, the investment of the entire reserve by this company in a new plant resulted in a situation, as Mr. Twyman stated, in which the company's

"reserve is now frozen in a losing plant and we are losing \$2.00 a year on every telephone."

In other words, the reserve set aside to replace portions of the plant as they wear out has been used instead to take care of new and unprofitable business. This is a wrong policy and means trouble in the future unless discontinued.

It further appears that additional switchboard equipment must soon be added.

OPERATING RECEIPTS AND EXPENSES.

Mr. H. C. Gretz, an expert telephone accountant, presenting on the stand the audit made by Mr. G. C. Van Emmon, who was unable to appear because of illness, made up a statment of revenues and expenses for the calendar year ending December 31, 1921, based upon three-quarters actual and one-quarter estimated. His estimate of toll service revenues appears a little low by comparison and in view of local conditions in Charlottesville — say \$300. This would make the probable revenues for the calendar year, \$67,522.77.

General and miscellaneous expenses, \$16,034.99, include the expenses of the rate case, estimated at \$4,000. This should be amortized over a period of four years, thus removing \$3,000 from the expenses for the present year.

Upon the basis of the valuation reached in this opinion, and setting aside 5.5 per cent. for depreciation reserve, the depreciation allowance should be \$12,478.55 instead of \$14,167.78. It thus appears that the net loss from operation during the present calendar year at the existing rates may be estimated at \$371.97.

It is very evident that this condition must be remedied. Upon any showing of its books, the company cannot expect to finance additions to its plant which are necessary to properly serve the public it purports to serve. The business of Charlottesville will be retarded and the city's development injured unless telephone service can be given to those who desire it. Every telephone added to the plant makes the service more valuable to the subscribers. There is no incentive to the company to provide additional capital to put in more telephones when each telephone must be operated at a loss. It is clearly to the public interest that the rates be increased.

It would probably be difficult to find any city in the United States of Charlottesville's population, and a telephone business, where the rates are so low. Even the rates proposed by the company are lower than those in force in

the sister city of Staunton, approximately the same size, but which will have fewer telephones than Charlottesville when all the present applications for service are filled.

The accounts of the company are kept in accordance with the regulations of the Interstate Commerce Commission, approved by this Commission. The rate case was excellently presented by counsel and presents a clear cut issue.

SCHEDULE OF RATES.

The following table sets forth the present and proposed rates in each case where a change is involved:

	<i>Present Rate</i>	<i>Proposed Rate</i>
Independent line, business, 1 mile radius.....	\$40 00	\$56 00
Two-party line, business, 1 mile radius.....	36 00	50 00
Independent line, business, 1½ mile radius.....	44 00	52 00
Two-party line, business, 1½ mile radius.....	40 00	56 00
Independent line, business, 2 mile radius.....	48 00	68 00
Independent line, residence, 1 mile radius.....	24 00	34 00
Two-party line, residence, 1 mile radius.....	20 00	28 00
Independent line, residence, 1½ mile radius.....	28 00	40 00
Two-party line, residence, 1½ mile radius.....	24 00	34 00
Independent line, residence, 2 mile radius.....	32 00	46 00
Two-party line, residence, 2 mile radius.....	28 00	40 00
Independent line, boarding house and draymen, 1 mile radius	28 00	38 00
Two-party line, boarding house and draymen, 1 mile radius	24 00	32 00
Independent line, boarding house and draymen, 1½ mile radius	32 00	44 00
Two-party line, boarding house and draymen, 1½ mile radius	28 00	38 00
Residence, extension telephones.....	12 00	8 00
Desk set in lieu of wall set beyond 2 miles.....	6 00	4 00
Loud ringing gongs.....	4 00	8 00
Extension bells	2 00	3 00
Switching boxes	2 00	3 00
Private branch exchange stations.....	3 00	4 00
Four-party line, harmonic, 2 to 4 miles.....	28 00	30 00
Eight-party line, harmonic, 4 to 15 miles.....	30 00	36 00
Nine- to sixteen-party line.....	26 00	28 00

	<i>Present Rate</i>	<i>Proposed Rate</i>
One- to sixteen-party line, code ringing, 4 to 16 miles	24 00	26 00
Single line, Farmers mutual company.....	16 00	22 00
Six- to sixteen-party line, Farmers mutual company	8 00	10 00
Farmers mutual company, owned line not less than 6 miles nor more than 10 miles.....	16 00	18 00
Extra listing subscriber's name in directory.....	2 00	3 00

It will be noted that the increases on the country lines are small and in comparison with similar service given elsewhere in the State, the proposed rates are low.

It has always been customary in Charlottesville to make a higher charge on telephones more than one mile from the central office, even within the city limits. Charlottesville is long and narrow and this extra charge is, of course, intended to defray the additional expense of maintaining the lines. The territory affected is that in and about the University of Virginia. The additional amount charged in this area on all classes of telephones has always been \$4.00 per annum. The company now proposes to make the charge \$6.00 per annum for each one-half mile or portion thereof.

No objection has been made at either hearing to these higher rates within one city, although it is unusual; the people are evidently used to it and the Commission is not prepared to say that it is not a fair way to distribute the expense of operation under the circumstances. However, we think the present \$4.00 a year sufficient.

The rates the Commission is allowing are \$2.00 per year less on business and \$1.00 per year less on residence telephones than those asked for by the company, and by the limitation to \$4.00 extra for telephones between one mile and one and one-half miles from the central office, the rates to these subscribers will be \$3.00 and \$4.00 less, respectively, than those proposed by the company.

This adjustment should result in a lower loss for regrading than that estimated by Mr. Gretz, and the additional

taxes of 3 per cent. (2 per cent. State and 1 per cent. city) will accordingly be less than in that estimate. Although service is now being given at a net loss for each telephone, the new rates will yield a profit, so that the new telephones to be installed in order to fill pending orders, will add to the company's profits in their due proportion.

Federal income tax will not be allowed as an operating expense. It is supposed to be a direct contribution from net earnings of individuals and corporations to war expenses, and is eliminated from this case.

The rates as filed by the company will be in effect from and after December 1, 1921, upon filing on one day's notice with the Commission, except as follows:

Independent line, business, (within one mile radius).....	\$54 00
Two-party line, business, (within one mile radius).....	48 00
Independent line, residence, (within one mile radius).....	33 00
Two-party line, residence, (within one mile radius).....	27 00

The independent exchange mileage rate outside of base rate area may be charged at not exceeding \$4.00 per annum.

SUMMARY OF CASE.

In the previous case,* the financial history of the company was discussed. It has been well managed, has rendered adequate and progressive service, and has been exceedingly prosperous. That the owners of the property were entitled to the large returns they formerly enjoyed is demonstrated by the fact that they gave good service at rates lower than those in other cities of the same size. Wages are now on a much higher level, costs of all kinds have greatly increased, and the company is losing money. The rapid growth in its business is another factor requiring higher rates, since every additional telephone in the system adds to the cost of operating all the telephones connected.

To require a continuance of the present rates, at a net loss per day, would be confiscation. Further, it would be

* See Commission Leaflet No. 112, p. 829.

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disastrous to the growth of the city of Charlottesville, which must have adequate telephone service for those who are demanding it. The company naturally cannot borrow to build extensions when it is losing money and when each new telephone added means an increased loss.

The new rates are lower than those in force in most other cities of the same size.

They will pay between 5 and 6 per cent. return on the valuation. An order will be entered putting the new rates into effect.

For reasons set forth in writing and filed with the record in this case,

It is ordered, That the schedule of rates filed as Exhibit C with the Albemarle Telephone Company's petition on September 1, 1921, be approved, effective December 1, 1921, upon filing on one day's notice to the Commission, except that the independent line business rate within one mile radius shall not exceed \$54.00 per annum; that the two-party line business rate within one mile radius shall not exceed \$48.00 per annum; that the independent line residence rate within one mile radius shall not exceed \$33.00 per annum; that the two-party line residence rate within one mile radius shall not exceed \$27.00 per annum; and that the independent line rate beyond one mile radius outside the exchange base rate area, where pole line is already established, shall not exceed \$4.00 per annum for each half mile or portion thereof.

November 29, 1921.

WISCONSIN.

Railroad Commission.

In re APPLICATION OF THE NEW CASHTON TELEPHONE COMPANY FOR AUTHORITY TO ISSUE STOCK.

S. B.-1742.

Decided February 10, 1922.

Issue of Stock Authorized.

CERTIFICATE.

Be it remembered, that on the fourth day of January, 1922, the New Cashton Telephone Company, a public service corporation, applied to the Railroad Commission of Wisconsin for authority to issue \$2,300 of stock, and for that purpose filed with the Commission a statement duly signed and verified by its president and secretary as required by Section 1753-9 of the statutes.

That it appears from said statement that the corporation desires to issue \$2,300 of its capital stock for the purpose of paying for additions and extensions to its property and plant and all for purposes properly chargeable to capital account.

That said corporation duly and satisfactorily complied with the requirements of said statute, and the Commission, after considering said statement and the evidence before it, found and determined that the proposed issue of stock is lawful and for lawful purposes, and reasonably necessary for the purposes of the corporation.

Now, therefore, the Railroad Commission of Wisconsin hereby authorizes the New Cashton Telephone Company, a Wisconsin corporation, to issue stock as follows:

Two hundred thirty shares of its capital stock of the par value of \$10.00 each, making a total issue of \$2,300.

Said stock shall be issued for money only and at not less than the par value thereof and the funds derived therefrom shall be used for the purposes set forth in the second paragraph of this certificate.

Said New Cashton Telephone Company shall file with the Commission within thirty days after the sale of the stock as herein authorized, a verified statement showing the proceeds derived therefrom, and shall file with the Commission within thirty days after the application of the proceeds of the sale of said stock to the purposes herein authorized, a verified statement showing in detail the items to which such proceeds have been applied.

Said New Cashton Telephone Company shall not issue the stock herein authorized or receive any money therefor, either directly or indirectly, until this certificate shall have been recorded upon the books of the corporation.

In witness whereof, these presents have been signed and attested by the Railroad Commission of Wisconsin at its office in the Capitol in the city of Madison, Wisconsin, this tenth day of February, 1922.*

In re APPLICATION OF THE COMMONWEALTH TELEPHONE
COMPANY FOR AUTHORITY TO ISSUE BONDS.

S. B.-1753.

Decided February 13, 1922.

Certificate of Authority to Issue and Pledge Bonds Granted.

CERTIFICATE.

Be it remembered that on the seventh day of February, 1922, the Commonwealth Telephone Company, a public service corporation, applied to the Railroad Commission of Wisconsin for authority to issue \$24,500, par value, of its first mortgage bonds and \$23,000, par value, of its

* On February 20, 1922, an issue of stock was authorized *In re Cedar Grove Telephone Company* (S. B. 1745).

collateral trust bonds, and to pledge said \$24,500 of first mortgage bonds as security for the issue of \$23,000 of collateral trust bonds, and for that purpose filed with the Commission a statement duly signed and verified by its president and secretary, as required by Section 1753-9 of the statutes.

That it appears from said statement that the corporation desires to issue said \$23,000 of its collateral trust bonds for the purpose of securing funds with which to pay obligations incurred for extensions and additions to its property and plant, and all for purposes properly chargeable to capital account.

That it further appears from the statements set forth in said application and the evidence before the Commission that said corporation is unable to advantageously dispose of said \$24,500 of its first mortgage bonds, and desires to pledge these bonds as collateral security for the issue of said \$23,000 of collateral trust bonds.

That said corporation duly and satisfactorily complied with the requirements of said statute, and the Commission, after considering said statement and the evidence before it, found and determined that the proposed issue and pledge of bonds is lawful and for lawful purposes, and reasonably necessary for the purposes of the corporation.

Now, therefore, the Railroad Commission of Wisconsin hereby authorizes the Commonwealth Telephone Company, a Wisconsin corporation, to issue and pledge bonds as follows:

Twenty-four thousand, five hundred dollars, par value, of its 6 per cent. first mortgage bonds, and

Twenty-three thousand dollars, par value, of its 7 per cent. collateral trust bonds dated May 1, 1921, and maturing May 1, 1930, and to be secured by pledging as collateral, said \$24,500 of first mortgage bonds.

Said collateral trust bonds shall be issued for money only and at not less than 90 per cent. of the par value thereof, and the funds derived therefrom shall be used for the purposes set forth in the second paragraph of this certificate.

Provided, however, that in accordance with Subsection 2 of Section 1753-5 of the Wisconsin statutes, said company shall provide for amortizing all discount on said bonds by charging to an account entitled Unamortized Debt Discount the amount of the discount actually incurred in the sale of said bonds and in each year crediting to such account and charging to an account entitled Amortization of Debt Discount such proportion of the total discount incurred on such issue as will be required to extinguish the entire discount over the term of years for which such bonds are issued; such account Amortization of Debt Discount shall be reported to the Commission in the financial report of the company as a deduction from gross income.

It is hereby further certified, That the Commonwealth Telephone Company is authorized to pledge as collateral security for the issue of said \$23,000 collateral trust bonds, its 6 per cent. first mortgage bonds in the amount of \$24,500, *provided* that the terms of said pledge shall be in accordance with the provisions of Section 1753-10 of the Wisconsin statutes, and 90 per cent. of the par value of said first mortgage bonds is hereby fixed as the lowest price at which such bonds hereinbefore authorized to be pledged as collateral security may be sold under the terms of such pledge.

Said Commonwealth Telephone Company shall file with the Commission within thirty days after the sale of the bonds as herein authorized, a verified statement showing the proceeds derived therefrom, and shall file with the Commission within thirty days after the application of the proceeds of the sale of said bonds to the purposes herein authorized, a verified statement showing in detail the items to which such proceeds have been applied.

Said Commonwealth Telephone Company shall not issue or pledge the bonds herein authorized or receive any money therefor, either directly or indirectly, until this certificate shall have been recorded upon the books of the corporation.

In witness whereof, these presents have been signed and attested by the Railroad Commission of Wisconsin at its office in the Capitol in the city of Madison, Wisconsin, this thirteenth day of February, 1922.

In re APPLICATION OF THE OAKFIELD TELEPHONE COMPANY
FOR AUTHORITY TO ISSUE NOTES.

S. B.-1746.

Decided February 20, 1922.

Issue of Notes Authorized.

CERTIFICATE.

Be it remembered, that on the twenty-third day of January, 1922, the Oakfield Telephone Company, a public service corporation, applied to the Railroad Commission of Wisconsin for authority to issue \$6,500 of notes, and for that purpose filed with the Commission a statement duly signed and verified by its president and secretary, as required by Section 1753-9 of the statutes.

That it appears from said statement that the corporation desires to issue \$6,500, par value, of its promissory notes for the purpose of securing funds with which to refund and retire short time notes now outstanding, and all for purposes properly chargeable to capital account.

That said corporation duly and satisfactorily complied with the requirements of said statute, and the Commission after considering said statement and the evidence before it, found and determined that the proposed issue of notes is lawful and for lawful purposes and reasonably necessary for the purposes of the corporation.

Now, therefore, the Railroad Commission of Wisconsin hereby authorizes the Oakfield Telephone Company, a Wisconsin corporation, to issue notes as follows:

Sixty-five hundred dollars, par value, of its promissory notes in the denomination of \$500 each, dated March 1, 1922, maturing December 31, 1927, and bearing interest at the rate of 7 per cent. per annum, payable semi-annually.

Said notes shall be issued for money only and at not less than the par value thereof and the funds derived therefrom shall be used to refund short time notes now outstanding.

Said Oakfield Telephone Company shall file with the Commission verified statements showing the amount received from the sale of notes herein authorized to be sold; such statements shall be filed within thirty days of the time when the unreported amount received exceeds the sum of \$1,300.

Said Oakfield Telephone Company shall file with the Commission verified statements showing in detail the items to which the entire proceeds of the sale of said notes have been applied; such statements shall be filed within thirty days of the time when the unreported amounts expended exceed the sum of \$1,300.

Said Oakfield Telephone Company shall not issue the notes herein authorized or receive any money therefor, either directly or indirectly, until this certificate shall have been recorded upon the books of the corporation.

In witness whereof, these presents have been signed and attested by the Railroad Commission of Wisconsin at its office in the Capitol in the city of Madison, Wisconsin, this twentieth day of February, 1922.

In re APPLICATION OF THE MOUNT VERNON TELEPHONE COMPANY FOR AUTHORITY TO INCREASE RATES.

U-2504.

Decided March 9, 1922.

Reduction of Number of Subscribers Per Line Ordered — Rebuilding and Maintenance of Stub Lines by Company Ordered — Increase in Rates to be Authorized on Condition — Toll Rates Between Exchanges Established.

Applicant operating exchanges at Mount Vernon, Verona and New Glarus, requested authority to increase its rates for service 25 cents per month.

The Commission found that several of applicant's lines were loaded in excess of the number of subscribers per line recommended in the Commission's standards of service; that the present policy of the company was to require subscribers to build and maintain the side or stub lines extending to subscribers' premises removed from the main traveled highways with the exception that the company furnished 20 rods of wire; that a valuation furnished by the Commission's engineer showed a reproduction cost of \$62,704, and a reproduction cost, less depreciation, of \$36,155; that the outstanding capital stock amounted to \$5,200 and represented the greater part of the cash investment made by the stockholders, the remaining investment in plant having been made from earnings and from what should have been set up as reserve for depreciation; that the dividends paid by the company from its organization in 1901 to December of 1920, averaged 8.72 per cent.

The Commission further found that the total operating revenues for 1920 amounted to \$13,778.60, and the expenses, including taxes and depreciation, to \$12,294.76, which left a gross income of \$1,483.84; that if the rates authorized April 30, 1920,* were applied to the number of subscribers taking service December 31, 1920, the annual exchange revenues would have amounted to \$13,960.20; that the gross income on this basis, including tolls, would have been \$2,539.94; that if the amount allowed in 1920 for depreciation were added to this amount, there would be available for return and depreciation the sum of \$4,803.67, or sufficient return for an investment of approximately \$34,300.

The Commission further found that necessary improvements required would cost approximately \$10,000, and that such rates should therefore be authorized as would insure an adequate return and depreciation upon an investment of \$45,000; that up to the present time free service had been given with the Farmers Union Telephone Company, but that applicant and the Farmers Union company had recently completed a clear toll line between Verona and Middleton; that a message charge of 5 cents had been authorized on messages originating on the lines of the Farmers Union company and passing over the toll line to Verona; that applicant had been passing all reverse messages free.

Held: That applicant should within one year from date of this order reduce the number of subscribers per line to not exceeding 12, except where necessity required application should be made to the Commission to serve a greater number;

That applicant should take over the rebuilding, operation and maintenance of all stub lines, and should furnish all necessary materials and labor for future building or rebuilding of stub lines for one-quarter mile for each subscriber, beyond which distance the cost of building or rebuilding should be borne by the subscriber;

That applicant should notify the Commission as soon as the foregoing

* See Commission Leaflet No. 103, p. 778.

service requirements had been completed, at which time a supplementary order would be issued authorizing the following net rates if service requirements had been complied with: business, \$2.00; residence, \$1.50; rural, code ringing, \$4.50 per quarter, rural, full selective ringing, \$6.00 per quarter, the gross rates being 25 cents per month higher than the net rates;

That applicant should, beginning with the date of this order, make a charge of 5 cents on all messages transmitted by it over the clear line between Verona and Middleton.

OPINION AND DECISION.

The application of the Mount Vernon Telephone Company seeking authority to increase its rates for telephone service was filed with the Commission May 9, 1921.

Hearings were held May 23, and June 1, 1921, at Madison, Wisconsin, at which times the following appearances were entered: Torge and Stolen, attorneys, by *A. T. Torge*; *H. S. Austin*, president, *M. K. Peters*, secretary, *Frank Moore*, manager, *Charles L. Colby*, treasurer, and *A. G. Miller*, director, appeared for and in behalf of the Mount Vernon Telephone Company; Gilbert, Ela and Heilman, attorneys, by *Frank L. Gilbert*, representing a subscribers' committee, appeared in opposition.

The present lawful rates of the applicant were authorized by order* of the Commission under date of April 30, 1920, and are as follows:

	<i>Per Month</i>
Business telephone	\$1 75
Residence telephone	1 25
	<i>Per Quarter</i>
Rural, party line telephone.....	\$3 75
Rural, party line telephone, secret call.....	4 50
Rural, party line telephone, selective ringing.....	5 25
Extension sets at one-half the main line rental.	
Desk sets, 15 cents additional per month for residence and rural subscribers.	

The petitioner alleges that these rates are not sufficient to meet operating expenses and pay a reasonable return on its investment. Permission is therefore asked to place the following schedule in effect:

* See Commission Leaflet No. 103, p. 778.

	<i>Per Month</i>
Business telephone	\$2 00
Residence telephone	1 50
Extension bells	25
	<i>Per Quarter</i>
Rural, party line telephone.....	\$4 50
Rural, party line telephone, secret call.....	5 25
Rural, party line telephone, selective ringing.....	6 00

The applicant operates substantially a rural telephone system. Exchanges are maintained at Mount Vernon, Verona and New Glarus, serving approximately 875 subscribers. The applicant classified these subscribers in its 1920 annual report to the Commission as follows:

TABLE I.

CLASSIFICATION OF SUBSCRIBERS.

MOUNT VERNON TELEPHONE COMPANY EXCHANGE.

	<i>Mount Vernon</i>	<i>Verona</i>	<i>New Glarus</i>	<i>Total</i>
Local, business	4	24	56	84
Local, residence	13	44	174	231
TOTAL LOCAL	17	68	230	315
<i>Rural:</i>				
Four-party lines		4		4
Seven-party lines		7		7
Eight-party lines	8		8	16
Nine-party lines	9	9	18	36
Ten-party lines	20	20		40
Eleven-party lines	44			44
Twelve-party lines	24	36		60
Thirteen-party lines		13	26	39
Fourteen-party lines	28	28	42	98
Fifteen-party lines	15	30	15	60
Sixteen-party lines	16	16	32	64
Seventeen-party lines	17	34		51
Eighteen-party lines	18			18
Nineteen-party lines			19	19
TOTAL RURAL	199	197	160	556
TOTAL ALL	216	265	390	871

Several of the applicant's lines are loaded in excess of the number of subscribers per line recommended in our standards of service for telephone companies. Our decision* of April 30, 1920, commented upon the excessive loading and certain requirements pertaining to a division and rearrangement of rural circuits were set out at that time. While the applicant has relieved the conditions to a considerable extent there is still opportunity for improvement. The territory in which the applicant operates is a rich agricultural section, and peopled by progressive farmers. The type of telephone service necessary to meet the needs of these farmers is such that we do not believe that it can be given over lines loaded in excess of 12 parties per line. We have made a careful study of the service needs of the applicant's subscribers and of the ability of the company to meet these requirements and we can see no reason why the Mount Vernon company should not fully comply with our standard requirements. If the grade of service rendered by the applicant were satisfactory in all other respects consideration might be given to a slightly heavier loading in particular cases. The present general complaints, however, relate largely to busy lines.

Our order will provide for a standard loading of 12 parties per line, with the provision, that in all cases where service is generally satisfactory, the applicant may appeal to the Commission for a service authorization to grant it permission to load a particular line in excess of the standard requirement.

There is considerable difference of opinion between the company and the subscribers' committee relative to the manner in which the so-called stub lines should be rebuilt and maintained. The transcript in this case shows that the present policy of the company is to require the subscribers to build and maintain the side lines extending to subscribers' premises removed from the main traveled highways with the exception that the company will furnish

* See Commission Leaflet No. 103, p. 778.

20 rods of wire. The same rule, we understand, also applies to rebuilding. The subscribers maintain that adequate and efficient service can only be given when the company alone is responsible for the instrumentalities necessary to serve them. We believe that the subscribers are correct in their contentions that the company should maintain all property used and useful in serving them. The practice advocated by the company cannot be too severely condemned, for we have found, in practically all cases where there is division of responsibility in the operation and maintenance of a utility property, that the result is poor service. Not only is the service impaired but disagreements also arise under such a practice which result in much ill will in communities. This is especially true in local organizations operating public utilities, where the officers are usually well known.

It has always appeared to us that it is unreasonable to assume that a farmer is a skilled telephone repairman and capable of removing and correcting line and instrument troubles. Even granting that the farmer has the proper qualifications for this work, it appears unreasonable to expect that he will, during his busy season, defer his important farm work and give time to the location and repair of telephone trouble on his stub line. It would be much more economical for the individual to engage the telephone company's employees to perform this work and to pay the company direct for these services. However, since the repairs that may be made bring not only an improvement in service for the individual, but also for all subscribers on his line and to every subscriber who may be connected to his line for the completion of a message, it appears that the cost of the repairs should not be borne by the subscriber alone but should be apportioned to all who may at some time be connected to that line through the central office. The costs of repairs then should be carried generally rather than by the individual, as any subscriber on the exchange may benefit by the correction of a trouble. The only deviation from this rule would be

when a subscriber was so far removed from the main lines that the costs of repairs to his line would throw an unreasonable burden upon the other subscribers. We do not believe, however, that such a condition can obtain to any material extent on the applicant's system.

The failure of the policy being pursued by the applicant in this case must be apparent to all familiar with the operation of rural telephone systems. The only solution we can offer is to have the company assume all maintenance in connection with the stub lines.

We have given careful consideration to the company's position in this matter and realize that our requirement, that the company rebuild and maintain the stub lines, will entail considerable additional expense as well as additional investment. Reasonable consideration must be given to these items in determining adequate rates.

If the financial requirements incident to the maintenance of all lines are met by adequate revenue arising from the application of a revised rate schedule, the company's chief objection to this policy will have been met. The only other objection offered by the company relates to entering upon private property to make the necessary repairs to wire plant. We have already pointed out that the company has always maintained and repaired the subscribers' telephone instruments, and we fail to see wherein the additional requirement of wire plant maintenance will necessitate the intrusion on private property to any greater extent than does the repair and maintenance of substations.

An appropriate order defining the limits of the company's responsibilities in this matter will therefore be entered.

PROPERTY.

An estimate of the reproduction cost, and of the reproduction cost less depreciation, has been made by our engineering department based upon an inventory submitted by the applicant's manager. The summary of the engineers' detailed estimates appears below,

TABLE II.
VALUATION SUMMARY — (ESTIMATE)
MOUNT VERNON TELEPHONE COMPANY.

	<i>Reproduction</i>	
	<i>Cost</i>	<i>Cost Less Depreciation</i>
Land	\$700 00	\$700 00
Distribution system	44,531 00	23,784 00
Buildings and miscellaneous structures.....	4,430 00	3,057 00
Exchange equipment	1,840 00	1,005 00
General equipment	680 00	550 00
TOTAL	\$52,181 00	\$29,096 00
Add 12 per cent.....	6,262 00	3,492 00
TOTAL	\$58,443 00	\$32,588 00
Materials and supplies.....	792 00	792 00
Recent investment including 12 per cent.....	3,469 00	2,775 00
TOTAL	\$62,704 00	\$36,155 00

An estimate of the plant's value has also been made by our engineering department based upon a comparison with other similar plants. These computations result in an estimated cost of reproduction of \$59,619.

The balance sheet showing the financial condition of the company as of December 31, 1920, is reported in its annual report to the Commission as follows:

TABLE III.
BALANCE SHEET — DECEMBER 31, 1920.
MOUNT VERNON TELEPHONE COMPANY.

<i>Assets</i>		<i>Liabilities</i>	
Plant and equipment...	\$37,728 97	Capital stock	\$5,200 00
Cash	814 84	Accounts payable	438 81
Due from subscribers		Accrued liabilities not	
and agents	2,827 33	due	339 52
Materials and supplies.	388 83	Depreciation reserve...	9,754 72
		Surplus	25,981 92
TOTAL	\$41,759 97		*\$41,759 97

* So appears in original.

If we were to substitute for the value of the plant and equipment as set forth above, the estimated reproduction cost appearing in TABLE II, the surplus of the company would be increased from \$25,981.92 to \$34,162.67 and the depreciation reserve from \$9,754.72 to \$26,549.

We are of the opinion that the discrepancy between the reported book value and the reproduction cost as estimated by our engineers is a good example of the inaccuracies of the applicant's accounting procedure. This difference, no doubt, arises from the practice of charging, in many cases at least, new construction to the operating account.

We are further led to believe from an examination of the company's records that they have not been properly kept, and as a result are of little use in a determination of adequate rates.

It will be observed that the capital stock amounts to \$5,200, and represents the greater part of the cash investment made by the company's stockholders. The remaining investment in plant has been taken from earnings and from what should have been set up as a depreciation reserve.

The company between its organization in 1901 and December, 1920, declared dividends amounting to \$10,-313.68. As offsetting this there were two assessments of \$624 each, or \$1,248. Deducting this we have as the net cash return on the stock invested \$9,065.68, or \$453.28 per year for the twenty years of operation. Assuming that the total 52 shares were all sold in 1901 (some were sold later) the average return would be 8.72 per cent. In addition to the above dividends the stockholders enjoyed about the equivalent of one and one-half year's telephone service free of any charge. The resultant average yearly return then, assuming all stock was purchased at the organization, is 9.62 per cent. For several years no dividends were paid, so that interest on accumulated dividends would reduce the actual rate below this percentage.

The argument advanced by the attorney for the petitioner that the stockholders had devoted much time to the organization without compensation is probably true as far

as any cash received for their labor is concerned; but on the other hand when we consider that they now have a built-up property whose reproduction cost is approximately \$62,000 from an original investment of \$5,200, we feel that they have been amply repaid.

It appears to us that the present proceeding, in addition to involving the matter of adequate rates, also includes the matter of reasonable service, and when due consideration is given to the company's past earnings including the plant's increased value, we believe that the matter of service is paramount.

We are of the opinion that a considerable investment must be put into the applicant's plant before it will be in a condition to render service that will measure up to the Commission's standards. Just what sum should be so expended we are unable to state, but our judgment is that the balance now in the depreciation reserve as shown in the balance sheet could easily be expended in the construction of the wire plant. Particular attention should be given to the reconstruction of stub lines.

OPERATING EXPENSES.

The statements of revenues and expenses for the periods 1918, 1919, and 1920, as furnished by the company in its annual reports to the Commission appear in TABLE IV.

TABLE IV.

REVENUES AND EXPENSES.

MOUNT VERNON TELEPHONE COMPANY.

For the years ending December 31,

<i>Revenues:</i>	1918	1919	1920
Exchange revenues	\$11,076 47	\$11,299 20	\$12,904 10
Toll revenues	1,638 35	1,133 87	874 50
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	\$12,714 82	\$12,433 07	\$13,778 60

Expenses:

	1918	1919	1920
Repairs to wire plant.....	\$1,719 30	\$1,484 34	\$2,048 24
Repairs to equipment.....	441 49	806 94	860 64
Station removals and changes.....	.....	.....	6 57
Other maintenance expenses.....	26 47	188 88	42 30
Operators' wages	2,568 81	3,021 04	3,890 40
Other traffic expenses.....	735 17	616 73	672 18
General office salaries.....	1,221 64	1,088 45	1,105 28
Other general expenses.....	466 09	718 28	1,005 42
TOTAL ABOVE EXPENSES.....	\$7,178 97	\$7,924 66	\$9,631 03
Taxes	911 11	432 27	400 00
Depreciation	2,781 04	2,292 31	2,263 73
TOTAL	\$10,871 12	\$10,649 24	\$12,294 76
GROSS INCOME	\$1,843 70	\$1,783 83	\$1,483 84

If the rates authorized April 30, 1920,* are applied to the number of subscribers taking service December 31, 1920, the annual exchange revenues would total \$13,960.20. The 1920 gross income on this basis would have been \$2,-539.94 instead of \$1,483.84. Adding to the estimated gross income of \$2,539.94 the depreciation reserve set up by the applicant (\$2,263.73) we have available for return and depreciation \$4,803.67. Giving consideration to our usual allowances for return and depreciation on small properties such as the one operated by the petitioner, this is sufficient for an investment of approximately \$34,300. Under the present policy and conditions of operation, we feel that the above allowance is ample. However, with the improvements in service outlined below which we estimate will cost in the neighborhood of \$10,000, the Commission feels it should grant such rates as will insure an adequate return and depreciation upon an investment of \$45,000.

Consideration must also be given to the item of increased operating expenses incident to the additional maintenance in connection with stub lines. We determine from the additional mileage added to the wire system that the com-

* See Commission Leaflet No. 103, p. 778.

pany's operating expenses will be increased approximately \$500 by adopting this policy. The total requirements on revenues will then be approximately as follows:

Return and depreciation.....	\$6,500 00
Operating expenses	10,131 00
TOTAL	\$16,431 00
Taxes	521 00
TOTAL REQUIREMENTS	\$16,952 00

The requirements will necessitate the following average rates:

	<i>Per Year</i>	<i>Annual Revenues</i>
Business, 84 telephones at.....	\$24 00	\$2,016 00
Residence, 231 telephones at.....	18 00	4,168 00
Rural, 566 telephones at.....	18 00	10,008 00
TOTAL ESTIMATED ANNUAL REVENUES NECES-		
SARY		\$16,182 00

The applicant has applied for differentials in its rural rates as follows:

	<i>Per Year</i>
Code ringing, on rural party lines.....	\$18 00
Secret call, on rural party lines.....	21 00
Selective ringing, on rural party lines.....	24 00

Our understanding of the secret call service is that a subscriber by means of a push button may call the central office without ringing any of the telephone bells attached to his line. Our experience with this mechanism leads us to the question whether it has the additional value indicated by the present rate schedule and whether the added cost is as great as the present differential. If the subscriber is interested in secret call service, some measure of such service may be obtained by choosing the full selective service. We believe that the differential in the rate for selective service over the code ringing service is fully justified by the additional costs of giving this service.

However, before any increases in rates over those now being paid are applied the applicant must comply with our requirements for improved service as set forth in the following order.

We believe that the matter of free service with the Farmers Union Telephone Company should also be disposed of in the present case. The two companies, the Mount Vernon Telephone Company and the Farmers Union Telephone Company, have recently completed a clear toll line between Verona and Middleton. The latter company by formal filing has been authorized to place a charge of 5 cents on all messages originating on its system and passing over the toll line to Verona. The Mount Vernon company has been passing all reverse messages free. This practice has led to complaints on the part of the Farmers Union company's subscribers.

In order to remove the cause of these complaints and to improve the service of both companies, we shall order that the charge of 5 cents shall apply on all messages sent over this line irrespective of the point of origin.

In order that this service may be handled without discrimination, the applicant's operators at its various exchanges shall not permit any of its subscribers to complete calls through the operators of a second exchange. For all calls going beyond the exchange to which the subscriber is connected, the subscriber shall give the operator at his exchange the name or number and the exchange of the party wanted. The operator will then pass this call to the exchange necessary to complete the call. In other words, no subscriber should be permitted to communicate, for the purpose of completing a call, with any operator beyond the exchange to which he is connected. All calls thus entering the Verona exchange for Middleton shall be passed over the toll line at a charge of 5 cents to the party originating the call.

It is, therefore, ordered, That the applicant, the Mount Vernon Telephone Company, shall within one year from

date of this order comply with the following service requirements:

1. Reduce the number of subscribers per line so as not to exceed 12 per line; excepting that where necessity requires a greater number may be served per line, providing permission is duly obtained from the Commission.

2. Take over the rebuilding, operation, and maintenance of all stub lines. In the present or future building or rebuilding of the stub lines, the company shall furnish all necessary materials and labor for one-fourth mile (80 rods) of stub line for each subscriber served from the stub line. Beyond this initial distance the cost of building or rebuilding must be borne by the subscriber or subscribers. If the subscriber or subscribers will construct this portion of the line according to the specifications of the company, the company will, when the line is completed, take over the line and thereafter properly maintain it. If the subscriber or subscribers will not agree to build or rebuild according to specifications of the company, then the subscriber or subscribers will be held responsible for the proper maintenance of the portion of the line so constructed. In event the line is not properly maintained, the subscriber or subscribers may be disconnected from the system and service refused until the line has been properly repaired. The company shall be the judge as to what constitutes proper repairs.

It is further ordered, That the applicant shall notify the Commission as soon as the above service requirements have been completed. The Commission will then issue a supplementary order authorizing the following rates if service requirements have been complied with.

	<i>Per Month</i>	
	<i>Gross</i>	<i>Net</i>
Business	\$2 25	\$2 00
Residence	1 75	1 50
	<i>Per Quarter</i>	
Rural, code ringing.....	5 25	4 50
Rural, full selective ringing.....	6 75	6 00

The difference between the gross rates and the net rates shall constitute a discount for prompt payments and shall be applied in accordance with the following rules:

Local Service: All bills are due in advance and shall be mailed on or before the first day of each month, and on all such bills paid on or before

the fifteenth of the current month the net rate shall apply. Beyond that date the gross rate shall be applied.

Rural service: All bills are due in advance and shall be mailed on or before the first day of each quarter. On all bills paid during the first month of the quarter a discount of 75 cents will be given, during the second month the discount will be 50 cents, and during the third month 25 cents. Bills not paid by the end of the quarter render the subscribers liable to such disconnection rule as may be filed with and approved by the Commission.

Increased rates as here outlined shall not be made effective until supplementary order has been issued by the Commission.

It is further ordered, That the applicant shall, commencing with the date of this order, make a charge of 5 cents on all messages transmitted by it over the clear toll line between Verona and Middleton. All calls between exchanges shall be completed in the manner outlined in the body of this decision.

Dated at Madison, Wisconsin, this ninth day of March, 1922.

In re APPLICATION OF THE PRAIRIE FARM, RIDGELAND AND
DALLAS COOPERATIVE TELEPHONE COMPANY FOR AUTHORITY
TO INCREASE ITS RATES.

U-2450.

Decided March 13, 1922.

**Increase in Rates as Requested Authorized — Continuous Service
Required.**

OPINION AND DECISION.

The application of the Prairie Farm, Ridgeland and Dallas Cooperative Telephone Company seeking authority to increase its rates for telephone service was filed with the Commission March 8, 1921. Hearing in the matter was held at Madison, Wisconsin, April 19, 1921, at which

time *J. A. Pratt* appeared for the petitioner. There were no appearances in opposition.

The present lawful rate of the applicant is \$12.00 per year, payable quarterly. It is alleged that this rate does not produce sufficient revenues to meet the operating expenses of the company and to provide adequately for depreciation and a fair return. Permission is asked for authority to place the following rates in effect:

<i>Local:</i>	<i>Per Year</i>	
	<i>Gross</i>	<i>Net</i>
One-party line	\$21 00	\$19 00
Multi-party line	15 00	13 00
<i>Rural:</i>		
Multi-party line	15 00	13 00

The applicant operates telephone exchanges in the villages of *Prairie Farm*, *Ridgeland* and *Sand Creek*. The total number of subscribers being served December 31, 1921, was 863. TABLE I. shows the classification of the subscribers:

TABLE I.

CLASSIFICATION OF SUBSCRIBERS.

PRAIRIE FARM, RIDGELAND AND DALLAS COOPERATIVE TELEPHONE COMPANY.

PRAIRIE FARM, WISCONSIN.

DECEMBER 31, 1921.

<i>Class of Service</i>	<i>Prairie Farm Exchange</i>	<i>Ridgeland Exchange</i>	<i>Sand Creek Exchange</i>
Business, one-party	11	11	7
Business, two-party	8	7	.....
Residence, one-party	20	10	15
Residence, two-party	22	5	2
Residence, three- and four-party...	3	4	3
Rural, business	7	3	6
Rural, residence (on lines having less than 12 subscribers per line).	87	52	107
Rural, residence (on lines having more than 12 subscribers per line)	231	135	107
TOTALS	389	227	247

The applicant reported at the hearing that it was serving only 812 subscribers, but information set forth in the above table indicates that there were 863 subscribers as of December 31, 1921. Inasmuch as the data in TABLE I. are taken from a detail of the number of subscribers per line as shown in its annual report to the Commission, we believe that they are the more reliable and these figures will be used in computing the applicant's annual revenues.

All central office equipment operated by the applicant is of the magneto type. All lines, both local and rural, are of grounded construction.

The hours of service are from 6:00 A. M. to 9:00 P. M. on week days, excepting during the summer months when the office is open at 5:00 A. M. Emergency service is available by means of a night bell between the hours of 10:00 P. M. and the opening hour. It appears then that no service of any kind is available between the hours of 9:00 and 10:00 P. M. daily. Service on Sundays and holidays is limited to the periods between 7:00 and 9:00 A. M., 12:30 and 1:30 P. M. and 6:00 and 7:00 P. M.

It appears from the above schedule that the hours of service are pretty much restricted when compared with the service given by other similar exchanges. Judging from comments which we have received from interested subscribers, this restriction of the hours of service greatly interferes with subscribers who have business of urgent importance to transact.

We are of the opinion that, except under very unusual circumstances, exchanges having 200 subscribers or more should at all times be in a position to render their subscribers emergency service, at least.

The limited service given, together with the grounded and heavily overloaded lines, indicates that the service rendered by the applicant does not compare favorably with the standards of service laid down by the Commission. We also believe that the service rendered by the applicant, insofar as the above requirements are concerned, is inferior

to that rendered by the majority of exchanges of comparable size.

On the other hand, the applicant's subscribers are probably receiving all the service that is warranted under a rate of \$12.00 per year. If the subscribers desire continuous service, full metallic lines, and the number of subscribers per line limited to 12, a material increase in rates will be necessary.

PROPERTY.

The applicant reports that its principal items of property consist of one 200-line and two 100-line magneto switchboards, 298 miles of pole line, 460 miles of wire, and the necessary instruments and appurtenances to serve 863 subscribers. It sets forth that its book value is \$24,087.22, distributed to the various items of property as follows:

TABLE II.

BOOK VALUE, PRAIRIE FARM, RIDGELAND AND DALLAS COOPERATIVE TELEPHONE COMPANY — PRAIRIE FARM, WISCONSIN.

DECEMBER 31, 1921.

Land	\$72 90
Buildings, fixtures and grounds.....	2,281 86
Central office equipment.....	1,132 67
Wire plant construction and equipment.....	17,059 43
Subscribers' station equipment.....	3,540 36
<hr/>	
TOTAL COST OF PLANT AND EQUIPMENT.....	\$24,087 22

The above reported investment is slightly less than \$28.00 per telephone. The average value which the Commission has fixed for eleven plants of similar size was \$54.14 per telephone. This average was obtained from plants the construction of which was all prior to 1916 and did not include any war time costs. The valuations include the properties of the following companies: Badger State Telephone and Telegraph Company at Granton; Bangor Telephone Company's plants at Bangor, Holman and Mindoro; Cadott Telephone Company at Cadott; Knapp Telephone Company at Wheeler; Monroe County Telephone Company at Sparta:

Troy and Honey Creek Telephone Company at Prairie du Sac; Muscoda Mutual Telephone Company at Muscoda; Cashton Telephone Company at Cashton, and the Adams County Metallic Telephone Company at Strongs Prairie.

These data would indicate that the applicant's book value represents a very conservative estimate of the value of the company's property, even considering the character of construction. It is probable that an inventory of the company's physical property would show a value in excess of the book figure.

The balance sheet purporting to show the financial condition of the company as of December 31, 1921, follows:

TABLE III.

PRAIRIE FARM, RIDGELAND AND DALLAS COOPERATIVE TELEPHONE COMPANY.

DECEMBER 31, 1921.

<i>Assets</i>		<i>Liabilities</i>	
Property and plant...	\$24,087 22	Capital stock (common)	\$13,480 00
		Depreciation reserve ...	3,525 32
		Open accounts	302 39
		Surplus	6,779 51
<hr/>		<hr/>	
TOTAL	\$24,087 22	TOTAL	\$24,087 22

The capital stock of the company is owned by 540 local stockholders. This fact, no doubt, is partly responsible for the applicant's inability to put its operations upon a more modern and business-like basis.

It appears from the statement of the amount of stock outstanding and from the applicant's statement of book value that the plant in question has been built up to a considerable extent either from earnings or by voluntary contributions of labor on the part of its officers and stockholders.

An analysis of the applicant's reports indicates that its accounting system can be of little use in setting forth what its actual financial condition is or has been.

We would point out that, starting with a reported surplus of \$177.30 June 30, 1909, the company has paid out in dividends and set up for depreciation a total of \$20,040.46, while the total sum available from operation for these purposes, according to its statements, was but \$19,040.20. At the present time, notwithstanding these facts, the surplus account shows a credit balance of \$6,779.51. The total discrepancy in the handling of the above accounts appears to be \$7,779.77.

Mention has been made in correspondence by parties interested that the company has always paid good dividends. An analysis shows that, while good dividends have been paid at times upon the stock, the rate of return upon the property investment for the period from 1909 to 1920, or the period covered by the Commission's reports, has been below normal. The following tabulation shows the annual return upon the maximum value of the property for the period mentioned:

Year	Net Income Before Deprecia- tion	Net Income Before De- preciation Per Cent. of Property Value	Disposition of Net Income		
			Dividends	Deprecia- tion Reserve	Surplus
1909.....	\$340 78	2.83	None	None	\$340 78
1910.....	787 16	5.85	None	None	787 16
1911.....	2,309 33	16.50	\$1,236 00	None	1,073 33
1912.....	2,645 85	17.40	2,102 25	None	543 60
1913.....	3,012 86	17.40	2,660 16	None	352 70
1914.....	1,181 31	6.95	1,707 62	None	*526 31
1915.....	*233 39	.....	None	None	None
1916.....	2,440 44	12.50	1,237 50	\$1,000 00	202 94
1917.....	1,402 07	6.90	741 39	600 00	60 68
1918.....	1,855 95	8.50	1,001 48	600 00	254 47
1919.....	1,136 71	4.95	1,038 80	1,517 32	*1,419 41
1920.....	1,285 04	5.42	790 50	1,577 26	*1,062 72
1921.....	698 79	2.90	801 43	1,428 74	*1,531 38

* Deficit.

The above tabulation also indicates that the applicant has resorted to the practice of paying dividends before providing for its depreciation requirements. This is particularly true of the past three years.

OPERATING EXPENSES.

In TABLE IV. we have set forth the applicant's revenues and expenses for the past five years. These figures are taken from the annual reports to the Commission. We believe that the reports covering the years 1919, 1920 and 1921, are fairly reliable and expenses set forth probably represent the operating requirements. The only question we would raise relates to the relatively large decrease in revenues from toll service between 1919 and 1921. The difference, however, is not of sufficient magnitude to warrant any particular investigation.

TABLE IV.

OPERATING REVENUES AND EXPENSES FOR THE YEARS ENDING DECEMBER 31,

<i>Revenues:</i>	1917	1918	1919	1920	1921
Subscriber telephone earnings...	\$8,286 93	\$8,867 20	\$8,928 95	\$9,314 93	\$9,397 34
Earnings from toll lines.....	431 56	534 31	23 72	125 04	18 28
TOTAL REVENUES.....	\$8,718 49	\$9,401 51	\$8,952 67	\$9,439 97	\$9,315 62
<i>Operating Expenses:</i>					
Central office expense.....	\$3,202 12	\$3,017 48	\$3,702 90	\$4,316 07	\$4,217 08
Wire plant expense.....	1,546 68	1,773 03	1,098 66	1,122 33	1,137 67
Substation expense.....	1,805 99	2,437 83	1,562 15	1,356 58	1,609 72
Commercial expense.....	69 26	94 23	.....	.....	.....
General expense.....	977 07	1,273 35	892 62	954 20	1,109 22
Undistributed expense.....	178 71	167 46	283 96	207 09	308 12
TOTAL.....	\$7,779 83	\$8,768 38	\$7,540 29	\$7,956 27	\$8,381 81
Taxes.....	256 83	325 33	344 41	270 16	279 93
TOTAL OPERATING EXPENSES.	\$8,036 66	\$9,093 71	\$7,884 70	\$8,226 43	\$8,661 74
Net operating revenue.....	\$681 83	\$312 80	\$1,067 97	\$1,213 54	\$653 88
Non-operating revenue.....	720 24	1,543 15	68 74	71 50	44 91
Amount available for return and depreciation.....	\$1,402 07	\$1,855 95	\$1,136 71	\$1,285 04	\$698 79

The average operating expense per telephone for the year ending December 31, 1921, was \$10.10. Our experience shows that such an average expense is very conservative, so much so that it probably represents a corresponding sacrifice in the service rendered.

We judge from some of the correspondence which we have received from subscribers of the applicant that at least some of its customers are more interested in receiving a better grade of service than they are in maintaining the low rates. It would appear, therefore, that the appli-

cant should be required to give a higher grade of service in the communities which it serves. The first requirement, we believe, should be that of continuous service, and our order will provide that subsequent to its effective date the applicant shall give continuous service at all of its exchanges.

The additional cost to the applicant of instituting continuous service will be about \$530 annually. This estimate is based upon the minimum hours required at each exchange as follows:

<i>Exchange</i>	<i>Minimum Number of Hours of Service Daily</i>	<i>Number of Subscribers</i>
Prairie Farm	389	19
Ridgeland	227	15
Sand Creek	247	16

The yearly requirement on this basis is 18,262.5 hours, and the annual wages of operators based upon the minimum charge of 22 cents per hour, which the applicant is paying, would be \$4,017.75. During the month of March, 1921, the applicant paid \$290.85 for operators. The yearly charge at this rate would be \$3,490.20. The difference between this amount and the estimated wages under the provision of continuous service is \$527.55.

The yearly operating expenses (excluding taxes) then with continuous service would be the 1921 operating expenses (\$8,381.81) plus \$527.55, or \$8,909.36.

The annual requirements for return and depreciation upon the book value of \$24,087.22 will total \$3,372.21. The total requirements are:

Operating expenses	\$8,909 36
Return and depreciation.....	3,372 21
TOTAL	\$12,281 57

The schedule requested by the applicant may not meet the requirements of the company under continuous service,

but in that event we have only to advise that relief can be obtained through regular procedure before the Commission.

We wish also to point out to the applicant the necessity of providing for its depreciation requirements ahead of its dividends, and that this procedure must be followed in the future.

We also recommend to the applicant that it formulate and file with the Commission rules and regulations providing for the prompt payment of rentals. We suggest that all subscribers be billed quarterly in advance at the gross rate, and that on all bills paid on or before the fifteenth day of the second month of the quarter the net rate be applied. After that date the gross rate should apply.

It appears to us that there are three conditions which the applicant must meet before it can put its plant upon a basis which will meet the requirements of the public, and also provide for the needs of the utility:

- (1) Maintain continuous service.
- (2) Adopt and keep an adequate accounting system.
- (3) Adopt a scientific rate schedule which will also include necessary rules and regulations.

It is, therefore, ordered, That the applicant, the Prairie Farm, Ridgeland and Dallas Cooperative Telephone Company, be, and the same hereby is, authorized to discontinue its present rate and substitute therefor the following schedule, providing that it shall first institute continuous service at its exchanges located in Prairie Farm, Ridgeland and Sand Creek:

	<i>Per Year</i>	
	<i>Gross</i>	<i>Net</i>
<i>Local:</i>		
Single-party lines	\$21 00	\$19 00
Multi-party lines	15 00	13 00
<i>Rural:</i>		
Multi-party lines	15 00	13 00

The above rates will be made effective by the Commission without further hearing upon written notice from the company that it has complied with the provision of this order for continuous service.

Dated at Madison, Wisconsin, this thirteenth day of March, 1922.*

In re APPLICATION OF THE WESTFIELD FARMERS TELEPHONE
COMPANY FOR AUTHORITY TO INCREASE RATES.

U-2659.

Decided March 29, 1922.

Increase in Rates Authorized.

OPINION AND DECISION.

The application of the Westfield Farmers Telephone Company asking for authority to increase rates was filed with the Commission March 6, 1922.

Hearing was held March 15, 1922, at Madison, Wisconsin, at which time *John A. Conant*, and *J. O. Mortenson*, president, appeared for the applicant. There were no appearances in opposition.

The lawful rates of the petitioner as at present applied are:

	<i>Per Year</i>
Business places	\$19 80
Village, metallic service.....	15 60
Rural, grounded	13 00

Permission is asked to amend these rates and to establish the following charges:

	<i>Per Year</i>
Business, one-party, village.....	\$24 00
Residence, one-party, village.....	18 00
Rural service	16 00

The applicant operates telephone exchanges in the villages of Westfield, Grand Marsh and Harrisville. The total subscribers served number 735, of whom 561 are

* On March 7, 1922, an increase in rates for business service was authorized *In re Lincoln Farmers Telephone Company* (U-2632).

rural subscribers. The territory which the applicant serves was in the path of the February sleet storm and a large amount of damage was done to its property.

Due to the fact that the petitioner's rates have been insufficient to provide for an adequate depreciation reserve, and because the applicant under normal operating conditions cannot meet its requirements, it is imperative that the rates be increased at the present time if the company is to continue to give service.

The applicant's revenues and expenses for the year ending December 31, 1921, are set forth in TABLE I.

TABLE I.

STATEMENT OF REVENUES AND EXPENSES.

WESTFIELD FARMERS TELEPHONE COMPANY.

Operating Revenues:

Subscribers' telephone earnings.....	\$10,142 00
Earnings from local toll lines.....	511 37
Commissions on long distance tolls.....	252 12
TOTAL REVENUES	\$10,905 49

Operating Expenses:

Central office expense.....	4,310 00
Wire plant expense.....	2,236 00
Substation expense	1,384 10
Commercial expense	608 20
General expense	2,224 38
Undistributed expense	130 80
TOTAL	\$10,893 48
Taxes	474 24
TOTAL EXPENSES	\$11,367 72

Amount available for depreciation and return.....	*\$462 23
Non-operating revenues	171 67
NET DEFICIT	\$290 56

* Deficit.

The applicant's operations for 1918, 1919 and 1920, show the following results before any provisions for return or depreciation:

1918, deficit	\$150 43
1919, surplus	36 20
1920, deficit	893 05

The book investment in property and plant was \$36,405.02 on December 31, 1921. This amount averages slightly over \$49.00 per telephone, which is a conservative investment for a property requiring three exchanges, as it does, for a limited number of subscribers.

The applicant's report to the Commission for 1921 shows notes payable of \$5,500 and accounts payable of \$1,540.

Consideration of the above facts indicates that the applicant is entitled to a substantial increase in rates. The increases requested would yield increased revenues about as follows:

Business telephones, 56 at \$4.20	\$236 20
Residence telephones, 111 at \$2.40	266 40
Rural telephones, 561 at \$3.00	1,683 00
TOTAL	\$2,185 60

The system's total requirements based on 1921 conditions can be estimated as follows:

Operating expenses	\$10,893 48
Taxes	474 24
Return, 8 per cent. on \$36,405.02	2,912 40
Depreciation, 6 per cent. on \$36,405.02	2,184 30
TOTAL REQUIREMENTS OF PLANT	\$16,464 42

If the revenues reported by the applicant for 1921 are representative of the revenues that may be expected to accrue with the present rates and number of subscribers, the rates requested should produce approximately \$14,091.09. This amount is still short of a complete return by \$2,373.33.

In re APPLICATION OF DANE COUNTY RURAL TEL. CO. 1425
C. L. 125]

In our opinion the applicant's request should be granted.

It is, therefore, ordered, That the applicant, the West-field Farmers Telephone Company be, and the same hereby is, authorized to discontinue its present schedule of rates and to substitute therefor the following charges:

	<i>Per Month</i>	
	<i>Gross</i>	<i>Net</i>
Business telephones, village	\$2 25	\$2 00
Residence telephones, village.....	1 75	1 50
	<i>Per Quarter</i>	
Rural telephones	\$4 75	\$4 00

Subscribers shall be billed and collections made under the same rules and regulations as are now effective.

Rates herein authorized may be made effective for service rendered on and after April 1, 1922.

Dated at Madison, Wisconsin, this twenty-ninth day of March, 1922.*

In re APPLICATION OF THE DANE COUNTY RURAL TELEPHONE
COMPANY FOR AUTHORITY TO INCREASE RATES.

U-2365.

In re APPLICATION OF THE WISCONSIN TELEPHONE COMPANY
FOR AUTHORITY TO INCREASE RATES AT ITS MADISON
EXCHANGE.

U-2357.

Decided March 30, 1922.

Increase in Rates Authorized.

SUPPLEMENTARY OPINION AND DECISION.

The application of the Dane County Rural Telephone Company seeking authority to increase rates for telephone service was filed with the Commission December 22, 1920.

* On March 30, 1922, an increase in rates was authorized *In re Rockland Telephone Company* (U-2637).

Hearing was held January 13, 1921. *H. C. Winter*, manager of the company, appeared in its behalf and a number of subscribers were present and offered testimony.

The Wisconsin Telephone Company some time prior to December 22, 1920, filed an application to increase its rates at its Madison exchange* which application has been passed upon so far as it affects other classes of service than the switching service extended to roadway lines. Because of the relationship between this service and the cost to the Dane County Rural Telephone Company of furnishing service to its subscribers, the matter of the switching rate of the Wisconsin Telephone Company has been held in abeyance pending disposition of the case of the Dane County Rural Telephone Company.

A rural rate of \$27.00 per year for service within a six-mile area with an additional charge of \$3.00 per year for each one-mile zone beyond that area, has been approved for the Madison exchange* of the Wisconsin Telephone Company. Rates of the Dane County Rural Telephone Company are considerably lower and the Commission has hesitated to approve an increase until assured that proper standards of service would be maintained. Heretofore the service rendered by the Dane County Rural Telephone Company has not been satisfactory and it has appeared almost out of the question to secure fully the quality of service which should be afforded. It now appears that arrangements have been completed by which the Wisconsin Telephone Company will take over the operation of the lines of the Dane County Rural Telephone Company and be responsible for their maintenance and for the character of service rendered. Under these conditions we see no reason to expect that service on the Dane County Rural Telephone Company's system will continue below standard and insofar as the value of the service is concerned, it should be placed upon the same rate base as the present rural business of the Wisconsin Telephone Company.

* See Commission Leaflet No. 117, p. 640

We have made a rather careful analysis of the cost to the Wisconsin Telephone Company of furnishing service at its Madison exchange, including the cost of furnishing the rural service, and we are satisfied that the present rate for that service is justified by the cost. It appears proper, therefore, to approve the present rural rate of the Wisconsin Telephone Company's Madison exchange for service on the lines of the Dane County Rural Telephone Company.

The switching rate to be fixed for the Madison exchange is unimportant insofar as the total revenue is concerned. We understand that only two lines with a very small number of subscribers will hereafter be furnished service on a switching basis. We will therefore fix a switching rate comparable to that which has been fixed for a number of the larger exchanges of the Wisconsin Telephone Company. Possibly a complete analysis of the costs would show a higher rate to be justified, but the matter is not of sufficient importance to require detailed analysis.

It is, therefore, ordered, That effective for service rendered on and after April 1, 1922, on lines now owned and operated by the Dane County Rural Telephone Company the net rate shall be \$27.00 per year for service within the six-mile radius of the Madison central office, with excess radius charges equivalent to those now effective on the system of the Wisconsin Telephone Company at its Madison exchange.

It is further ordered, That the Wisconsin Telephone Company may place in effect at its Madison exchange for switching service rendered on and after April 1, 1922, a rate of \$9.00 per telephone, per year.

Dated at Madison, Wisconsin, this thirtieth day of March, 1922.

In re APPLICATION OF THE EASTERN WISCONSIN TELEPHONE COMPANY FOR AUTHORITY TO PLACE IN EFFECT CERTAIN RATES AS SET OUT IN THE COMMISSION'S ORDER OF FEBRUARY 28, 1921.

U-2666.

Decided March 30, 1922.

Rates Formerly Authorized on Condition Made Effective.

OPINION AND DECISION.

Application in this matter was filed with the Commission March 14, 1922, and hearing was held at Madison March 27. *J. A. Pratt* and *G. A. Kraemer*, president of the company, appeared in the applicant's behalf. There were no other appearances.

On February 28, 1921, the Commission upon application of the Eastern Wisconsin Telephone Company entered an order* providing that certain rate schedules therein set forth would be approved by the Commission at such time as its service department should report that service conditions at any of the exchanges there mentioned were satisfactory, but that such rates should not be placed in effect until such further order of the Commission. The exchanges in question were those at Brillion, Chilton, Elkhart Lake, Kiel, New Holstein, Hilbert, Fond du Lac and Plymouth.

Subsequent to the issuance of this order the company proceeded to make the necessary improvements in service and we believe carried out the necessary work in good faith and with every intention of having the entire system placed on a proper basis before the end of the current year. From time to time supplementary orders† have been issued as individual exchanges have been brought up to proper service condition so that the schedule of rates as outlined in the order* of February 28, 1921, has been made effective in the exchanges at Brillion, Chilton, Hilbert, New Holstein

* See Commission Leaflet No. 113, p. 1226.

† See Commission Leaflets No. 116, p. 248, and No. 118, pp. 1017, 1032.

and Fond du Lac (Peebles). In the exchanges at Kiel, Elkhart Lake and Plymouth the work of rehabilitation necessary to the improvement of service standards was not completed at the end of 1921 and the rates set out in the order* of February 28, 1921, have not been made effective.

Under normal conditions, therefore, there would be nothing to do but for the company to proceed during 1922 with the rehabilitation of these exchanges after which the Commission would issue orders in due course authorizing the application of the new schedule of rates. However, this company has been particularly unfortunate as a result of the severe sleet storm the latter part of February and is now in a position where failure to grant some relief may result very seriously, not only to the company but to the communities concerned. The president of the company at the hearing estimated expenditures necessary as the result of the sleet storm at from \$20,000 to \$25,000.

During 1921 the company had available after making provision for depreciation the sum of \$224.61 which, of course, is practically negligible when compared with the value of the property. For practical purposes the company may be said to have just about earned its operating expenses during 1921. Under these conditions it must be apparent that some relief should be granted if the company is to be enabled to restore service and to continue with the program of overhauling and rehabilitating the lines in order that a proper standard of service may be obtained.

The rates authorized in our decision* of February 2^o 1921, are not in and of themselves excessive and in view of the present condition of the company we think there is no question that it should be authorized to make those rates effective at the three exchanges in which they have not yet been applied.

* See Commission Leaflet No. 113, p. 1226.

It is, therefore, ordered, That the applicant, the Eastern Wisconsin Telephone Company, may discontinue its present schedule of rates effective at its Elkhart Lake, Kiel and Plymouth exchanges and substitute therefor, for service rendered on and after April 1, 1922, the schedule of rates set out in our order* of February 28, 1921.

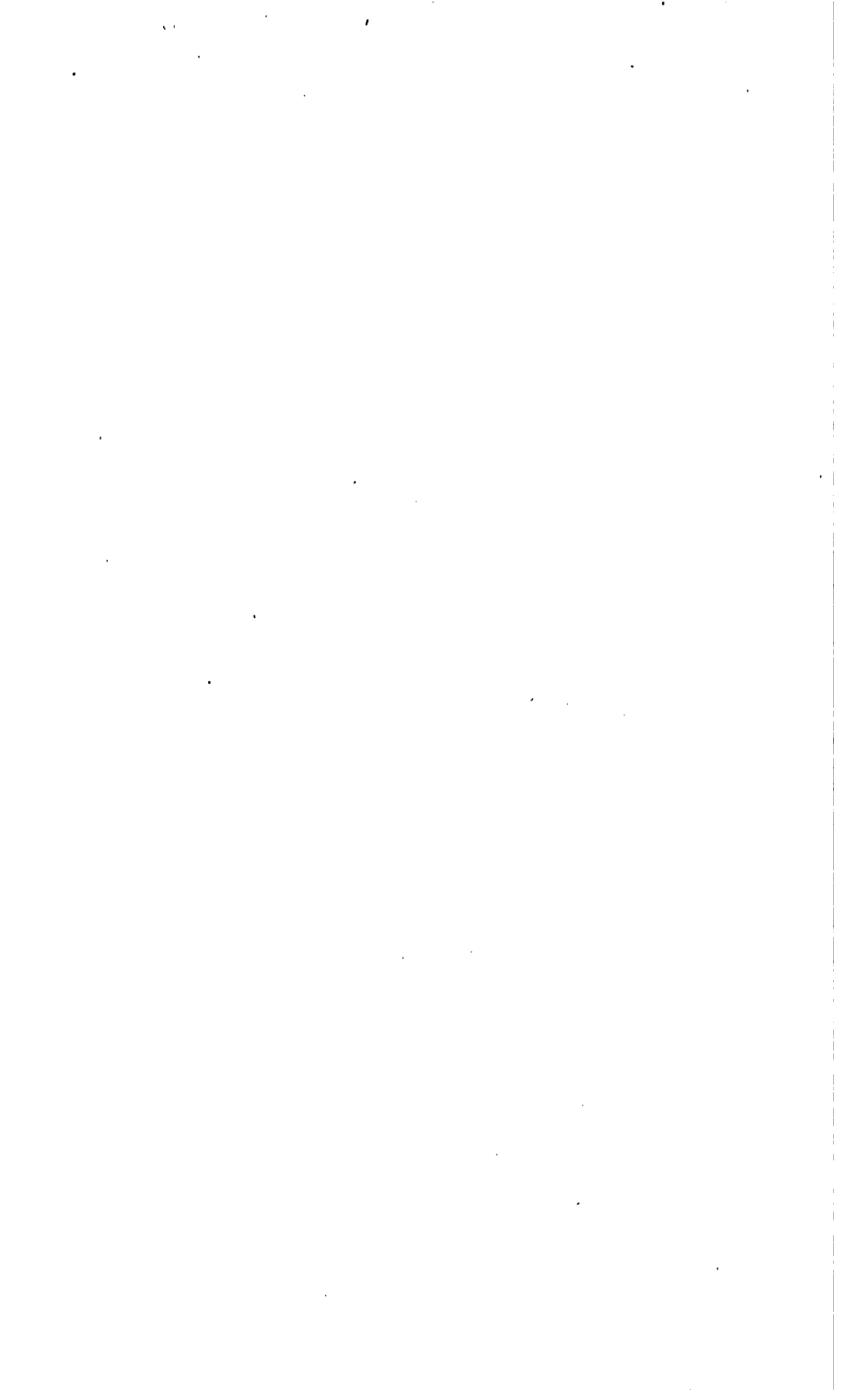
Dated at Madison, Wisconsin, this thirtieth day of March, 1922.

* See Commission Leaflet No. 113, p. 1226.

It is, therefore, ordered, That the applicant, the Eastern Wisconsin Telephone Company, may discontinue its present schedule of rates effective at its Elkhart Lake, Kiel and Plymouth exchanges and substitute therefor, for service rendered on and after April 1, 1922, the schedule of rates set out in our order* of February 28, 1921.

Dated at Madison, Wisconsin, this thirtieth day of March, 1922.

* See Commission Leaflet No. 113, p. 1226.



INTERSTATE COMMERCE COMMISSION.

In re JOINT APPLICATION OF THE NORTHWESTERN LONG DISTANCE TELEPHONE COMPANY AND THE PACIFIC TELEPHONE AND TELEGRAPH COMPANY FOR A CERTIFICATE THAT THE ACQUISITION BY THE LATTER OF CONTROL OF THE PROPERTIES OF THE FORMER WILL BE OF ADVANTAGE TO THE PERSONS TO WHOM SERVICE IS TO BE RENDERED AND IN THE PUBLIC INTEREST.

Finance Docket No. 2215.

Decided April 26, 1922.

Acquisition of Control of Property Approved.

REPORT.

The Northwestern Long Distance Telephone Company and The Pacific Telephone and Telegraph Company, hereinafter called the Northwestern and the Pacific, respectively, on February 4, 1922, filed a joint application for a certificate that the acquisition by the Pacific of control of the properties of the Northwestern, by lease, will be of advantage to the persons to whom service is to be rendered and in the public interest. A joint hearing was held for us by the Public Service Commission of Oregon and the Department of Public Works of Washington, and it is their joint recommendation that the application be granted.

The Northwestern was organized about the year 1906 for the purpose of furnishing long distance telephone service to a number of so-called independent telephone exchanges which were being installed in Seattle, Tacoma, Portland, Spokane and other cities in Oregon and Washington. At most of those points there was competition in local service between the independent group and the exchanges of the Pacific, which is one of the so-called Bell companies. About the year 1911, there began a process

of absorption by the Pacific of the independent exchanges, with which the Northwestern had connection for toll service, whereby such exchanges were consolidated with those of the Pacific, which had toll connections of its own between those points. In March, 1914, in a suit brought by the United States against all of the corporations and individuals concerned in the telephone situation in those localities, to restrain the establishment of a monopoly of the interstate telephone business, a decree was entered, by consent, which permitted the Pacific to retain the exchanges theretofore acquired and merged with its own, but required the Pacific to dispose of its holdings in the securities of the Northwestern, theretofore acquired, to bring about a complete separation of ownership of the competing toll facilities. The decree also provided that the Pacific should allow the Northwestern access to its consolidated exchanges at Seattle, Tacoma and Bellingham with such system of questioning all toll calls that the subscriber calling might elect whether his message should go over the lines of the Pacific or those of the Northwestern. The decree was carried out, but since that date numerous consolidations of local exchanges have taken place. Under a modification of the decree, 11 exchanges have been acquired by the Pacific, with the consent of the government, where that was necessary, and 23 exchanges have been sold by the Pacific to its competitors. In all of these cases, the Northwestern and the Pacific each have access to the combined exchange and each is required by the terms of the decree to charge the same rates and furnish the same service under substantially similar conditions. At present, the toll lines of the Pacific reach all local exchanges, whether its own or operated by its competitors, and there is thus a complete duplication of the toll lines of the Northwestern. It is stated that over 80 per cent. of the business handled by the Northwestern originates with subscribers of the Pacific who ask for Northwestern toll service. This situation is apparently due to the fact that numerous exchanges served by the Northwestern have, with the

consent of the government, been taken over by the Pacific. The system of questioning calls is still in use, and if a subscriber refuses to designate which service he desires he obtains no service at all. This results in considerable discussion and dissatisfaction, and as there is no inducement to the subscriber to use the Northwestern lines, the company has been unable to attract a sufficient volume of business to earn revenues with which to pay its indebtedness incurred at the time the lines were purchased pursuant to the decree, or to attract new capital for needed improvements. It is said that the pole line facilities of the Pacific are ample to carry the circuits of both companies and its switchboard facilities are adequate to handle all the business for years to come. Unification of the toll facilities of the two companies will eliminate the present duplication of operating and office forces and will also obviate the necessity of rebuilding, within the next few years, the pole lines of the Northwestern.

The proposed plan of consolidation provides for a lease for a term of fifteen years of all of the properties of the Northwestern to the Pacific, the latter to pay all expenses of maintenance and taxes and all claims arising from operation of the properties, with the right to combine the leased plant with its own, and with the option at the end of the term of acquiring the properties by paying \$250,000 in cash and canceling the note of the Northwestern now held by the Pacific upon which note there is due the sum of \$295,000. The Northwestern may at any time during the life of the lease require the Pacific to take title to the property. The rental reserved in the lease is the sum of \$34,750 per year. The tentative agreement further provides that it shall not become effective until our certificate shall have issued in this proceeding, nor until the decree above referred to shall have been modified so as to permit the carrying out of the plan. For the year 1921 the gross revenues of the Northwestern were \$175,122.53, and its operating expenses were \$162,528.07, leaving net earnings of \$12,594.46,

The structural value of the properties of the Northwestern is considerably greater than the price to be paid by the Pacific. One test of the reasonableness of the price is the earning power of the properties in the hands of the purchaser. Transfer of the operation of these lines to the Pacific company can be accomplished with comparatively little capital expenditure, and the expense of operating the combined properties will not be as great as the present combined operating expenses of the two companies. In fact, as it appears that the facilities and operating forces of the Pacific are adequate to handle all of the business of both, it follows that the major part of the gross revenues of the Northwestern will be net revenues for the Pacific company. If the sum of \$175,000 be taken as fairly indicative of the annual revenues to be derived from operation of the Northwestern properties in the future, it is apparent that this amount will be earned by the Pacific with no more additions to its operating expenses than are occasioned by the increase in the volume of business handled. The elimination of the greater part of such items as operators' salaries, traffic expenses and general office expenses should produce sufficient net revenues from the operation of the properties to enable the Pacific to write off its investment within a few years, since the revenues from such operation will be wholly new and additional revenue to the Pacific.

In the situation presented by the record, it is apparent that no useful purpose will be served by the continuance of the present duplicated service, which can only result in placing an added burden on the telephone-using public in an amount equivalent to the expense required to maintain the Northwestern's separate organization and plant, and can, apparently, afford that company no means of meeting its obligations.

We find, therefore, that the proposed acquisition, as above set forth, will be of advantage to the persons to whom service is to be rendered and in the public interest.

A certificate to that effect will be issued.

CERTIFICATE.

A hearing and investigation of the matters and things involved in said proceeding having been had, and said Division having on the date hereof made and filed a report containing its findings of fact and conclusions thereon, which said report is hereby referred to and made a part hereof,

It is hereby certified, That the acquisition by the Pacific Telephone and Telegraph Company of control of the properties of the Northwestern Long Distance Telephone Company, by lease, in the manner described in said report, will be of advantage to the persons to whom service is to be rendered and in the public interest.

April 26, 1922.

CALIFORNIA.

Railroad Commission.

In re APPLICATION OF THE WILLITS TELEPHONE AND TELEGRAPH COMPANY FOR AUTHORITY TO INCREASE RATES.

Application No. 5641.

In re APPLICATION OF THE WILLITS TELEPHONE AND TELEGRAPH COMPANY FOR AUTHORITY TO ABANDON SERVICE ON A PORTION OF ITS LINES.

Application No. 7273 — Decision No. 9957.

Decided December 31, 1921.

Increase in Rates Authorized — Amounts Ordered Set Aside Monthly for Reserve for Depreciation — Abandonment of Unprofitable Line Authorized.

OPINION.

The Willits Telephone and Telegraph Company, hereinafter referred to as the company, in Application No. 5641, requested authority from the Commission to increase its telephone rates for exchange service, alleging that this increase is necessary on account of the increased cost of labor. A subsequent application was filed by the company, and assigned Application No. 7273, in which it asked authority to abandon service over its line running from the junction of the Westport road and the Wilderness Lodge road to the town of Westport. The company states that there is only one telephone on this line and it is near Westport. These two proceedings were consolidated for hearing and decision.

A hearing was held in Laytonville by Examiner Satterwhite on December 28, 1921.

The company furnishes telephone service in the towns of Laytonville, Longvale, Branscomb, Dos Rios and Covelo and in the surrounding territories. It has lines between these towns, a line to Willits and one to Westport. One

central office is located in Laytonville and one in Covelo. The so-called local service is furnished from these two exchanges. Long distance connections with the system of The Pacific Telephone and Telegraph Company are made at Willits and at Westport.

The present rates have been in effect for many years and are as follows:

<i>Exchange Service:</i>	<i>Per Month</i>
Business, wall or desk telephone.....	\$2 00
Residence, wall or desk telephone.....	1 50

These rates entitle subscribers to free connections with all points on the company's system. The company furnishes only one classification of service. This would correspond to ten-party suburban service.

Toll Service to Non-subscribers:

From Willits to Laytonville, three minutes.....	\$0 25
From Willits to Longvale, Branscomb, Westport, Dos Rios and Covelo, three minutes.....	35

Overtime is paid for at the rate of 10 cents for each additional minute or fraction thereof over the initial three-minute period.

The company requests permission to increase its exchange service rate 50 cents per month for both business and residence telephones, the toll rates to remain as at present. It did not submit an inventory and appraisal of its property and a trial balance was the only statement presented concerning its revenue and expenses.

An inventory and appraisal of the company's property was made by the Commission's engineers. These were submitted at the hearing. The company states that the net additions to plant since August 1, 1920, the date of the appraisal, were negligible. After a careful analysis of this valuation and making allowance for the line which will be abandoned, we find the fair valuation of this property amounts to \$15,600 and we use this as a proper rate base.

The revenue and expenses of the company were analyzed by our engineers. This analysis indicated that for the year ending June 30, 1921, the net income, exclusive of interest deductions, amounted to \$415.96. The revenue

amounted to \$3,767.19 and the expenses, including taxes and rent deductions (but making no allowance for depreciation reserves), amounted to \$3,351.23. The company, therefore, received a return of approximately 2.7 per cent. upon the above rate base during this period. A careful estimate of the revenue and expenses for the coming year, with the present rates in effect, has been made. We do not anticipate an appreciable increase in the volume of business in this territory during this period. The company may reasonably expect revenue amounting to \$3,800 and the expenses, including \$600 for depreciation, will amount to approximately the same figure. It is apparent, therefore, that an increase in rates is justified.

The rate structure requested by the company and authorized in the order should yield a gross revenue of approximately \$4,550 during the coming year while the expenses will be about \$3,800, leaving a net income of \$750. While this yields only 4.8 per cent. upon the rate base, we feel that a further raise in rates would result in a loss of business, thereby defeating the purpose of the increase.

DEPRECIATION.

The company has been making no provision for the replacement of property made necessary by depreciation. The Commission, in many decisions, has expressed the opinion that this is an unsound policy and we will require the company to set by a sum in a fund for this purpose.

ABANDONMENT OF SERVICE.

The line over which the company desires to abandon service extends westward for a distance of about 12 miles from the junction of the Wilderness Lodge road and the Westport road to the town of Westport. The country traversed by it is mountainous and heavily wooded and the only subscriber on it is located within a few miles of Westport.

Obviously, the greater part of the expense of maintaining service on this line must be borne by the other sub-

scribers on the system. Since connections with Westport can be made via Willits, abandonment of the line would not prevent communication with the former town, but the subscribers desiring this service would have to pay a toll charge for it. The company testified that the total toll revenue derived from this line during the past year amounted to \$6.65 and that the number of calls made over it by subscribers of the system did not average more than two or three calls per month. It stated further that the one subscriber on this line could receive farmer line service from Westport.

After weighing the evidence in this matter, we are of the opinion that it is more just and equitable to all the subscribers on the system to abandon this portion of the line, than to continue the service, and authorize the company to discontinue it in the following order.

ACCOUNTING METHODS.

The accounting methods used by the company do not conform to the Commission's classification of accounts for telephone companies. The present system does not show the true condition of affairs of the company without a thorough analysis of the revenue and expenses. We will require the accounts to be kept as prescribed by the Commission for companies of this size.

ORDER.

The Willits Telephone and Telegraph Company having filed with this Commission its application for an increase in exchange rates for telephone service and for authority to abandon service over its line from the junction of the Westport road and the Wilderness Lodge road to the town of Westport, a public hearing having been held, the matter having been submitted and the Commission, basing its conclusions on the foregoing opinion, finding as a fact that the rates authorized are just and reasonable and that the interests of the communities involved are best served by the abandonment of service over the above described line;

It is hereby ordered, That the company is hereby authorized to file with the Commission within thirty days from the date of this order the following schedule of rates which, upon approval, may be made effective:

<i>Exchange Service, Ten-party Suburban:</i>	<i>Per Month</i>
Business, wall	\$2 50
Residence, wall	2 00
Desk telephones, additional.....	25

The above rates entitle subscribers to free connections with all points on applicant's system.

Toll Service to Non-subscribers:

The present rates for toll service, as set forth in the opinion, shall remain in effect.

These rates may be made effective subject to the following conditions:

(1) Adequate and efficient telephone service shall be furnished at all times.

(2) The company shall set aside into a depreciation fund the sum of \$600 per annum in monthly installments of \$50.00 for the purpose of taking care of such renewals and replacements as shall be covered by the fund. Suggestions for rules governing the functions and use of the depreciation fund shall be filed with the Commission by the company within thirty days from the date of this order and these rules shall thereafter go into effect as approved or modified by the Commission.

It is hereby further ordered, That the company is hereby authorized to abandon service on that portion of its line for which application for abandonment was made and as set forth in the preceding opinion.

Dated at San Francisco, California, this thirty-first day of December, 1921.

ILLINOIS.

Commerce Commission.

MONMOUTH TELEPHONE COMPANY *v.* MONMOUTH PUBLIC
SERVICE COMPANY.

Case No. 11914.

Decided February 8, 1922.

**Maintenance of 600-Volt Trolley Wire on Telephone Company's Poles
and Beneath Its Wires Held Dangerous and Ordered Removed.**

OPINION AND ORDER.

It appears from the record in this case that the Monmouth Telephone Company is a public utility, serving patrons in the city of Monmouth, Illinois, and that the Monmouth Public Service Company is also a public utility, furnishing electric service, and that prior to May 17, 1921, the complainant company had filed a complaint with the engineering department of this Commission, charging that the Monmouth Public Service Company was maintaining certain electric lines in the city of Monmouth in connection with complainant company's telephone lines, creating a dangerous condition, and in violation of General Order No. 30* of this Commission; and that on May 17, 1921, the engineering department took the matter up with J. R. Stevenson, the general manager of the Monmouth Public Service Company, informally, and having caused a personal survey to be made, found that a dangerous condition existed and that the Monmouth Public Service Company was operating and maintaining a portion of its lines in violation of General Order No. 30* of this Commission. Said company was notified that unless changes indicated by the engineering department of this Commission were completed by September 18, this matter would be placed on the docket for hearing.

* See Commission Leaflet No. 61, p. 177.

It appeared that no attention had been paid by the defendant company to the various complaints and communications from the complainant company, nor from the engineering department of this Commission. Therefore, the Commission, of its own motion, set this case down for hearing at Springfield, Illinois, on October 19, 1921, and due notice of such hearing was given to the parties interested.

On October 19, 1921, this cause came on for hearing before Assistant Commissioner Pillow at Springfield, Illinois. The Monmouth Telephone Company, represented by *F. A. Morris*, its general manager, appeared and answered ready for a hearing. The defendant, Monmouth Public Service Company, did not appear.

It appears from the evidence and the exhibit on file, that the particular part of the electric line in dispute is located on 4th Avenue from A Street to First Street in the city of Monmouth, Illinois, and is strung on the Monmouth Telephone Company's poles, under the telephone company's wires and appurtenances, on cross-arms that are being occupied and used by the Monmouth Public Service Company with electric service wires; that a trolley feeder wire is in such close proximity and so situated with reference to the telephone company's cables that the telephone company's employees cannot properly take care of the cable in maintaining their line without great hazard and risk to person and life.

When this complaint was first made the Monmouth Public Service Company was operating and maintaining a 2300-volt line on West Broadway and G Street; but during and in consequence of the informal hearing by the engineering department, the 2300-volt line was removed and the trouble remedied.

From a careful consideration of all the evidence the Commission finds, that the Monmouth Public Service Company is maintaining and operating its 600-volt trolley feeder wires as aforesaid on the Monmouth Telephone Company's poles, under the telephone company's wires;

that they are so placed and are being operated without the consent and over the protest of the telephone company and in spite of numerous requests to remove the same; and the Commission further finds that the maintenance of the 600-volt trolley wire located on 4th Avenue from A Street to First Street, on the Monmouth Telephone Company's poles, as aforesaid, by the Monmouth Public Service Company creates a dangerous condition and is in direct violation of General Order No. 30* of this Commission.

It is, therefore, ordered by the Commission, That the Monmouth Public Service Company immediately remove from the Monmouth Telephone Company's poles its 600-volt trolley feeder wire, located, maintained and operated on 4th Avenue from A Street to First Street, in the city of Monmouth, Illinois.

By order of the Commission at Springfield, Illinois, this eighth day of February, 1922.

In re APPLICATION OF THE PEOPLES MUTUAL TELEPHONE
COMPANY FOR AUTHORITY TO ISSUE MORTGAGE BONDS.

Case No. 12118.

Decided March 2, 1922.

**Issue and Sale of Bonds Authorized — Amortization of Discount and
Expenses of Bond Sale Authorized.**

OPINION AND ORDER.

Application having been made to the Illinois Commerce Commission by the Peoples Mutual Telephone Company for the consent and approval of the Commission to the issuance by said company of \$3,100 aggregate principal amount of its mortgage bonds, and a hearing having been held upon said application and the petitioner having presented its evidence in support thereof, and the matter having been

* See Commission Leaflet No. 61, p. 177.

duly submitted to the Commission for disposition, it appears:

That the Peoples Mutual Telephone Company is a corporation duly organized and existing under and by virtue of the laws of the State of Illinois, with its principal office in the city of Hillsboro, Montgomery County, Illinois, and is a public utility within the meaning of Section 10, Article I, of an Act Concerning Public Utilities, approved June 29, 1921, and now in force in Illinois; that it owns and operates a telephone system in Montgomery and adjoining counties in Illinois and is duly authorized by its articles of incorporation so to do.

That the balance sheet of said company as of December 31, 1921, copy of which is in the record as Petitioner's Exhibit A, shows its plant and equipment account on the asset side thereof in the total amount of \$179,453.56, and on the liability side thereof is shown its outstanding capital stock in the aggregate par amount of \$14,950, and its outstanding bonds in the aggregate principal amount of \$14,700. Its depreciation reserve is stated at \$73,214.41 and its surplus at \$77,066.02.

That said company on July 31, 1914, was authorized by the State Public Utilities Commission of Illinois (Authorization No. 45, Docket No. 2703) to issue and sell \$20,000 aggregate principal amount of its mortgage bonds, the proceeds to be used only for discharging or refunding certain notes and bonds; and said company issued and sold \$10,000 aggregate principal amount of bonds so authorized; that certain of said notes and bonds intended to be so discharged or refunded were in fact retired and cancelled by payments of money out of the income of said company; that on January 24, 1919, the Public Utilities Commission of Illinois by supplemental order authorized the issuance and sale of \$6,900 aggregate principal amount of said bonds theretofore authorized and then unissued, the proceeds to be used for the acquisition of certain property necessary and required in the petitioner's telephone business; and that there now remains a balance of

\$3,100 aggregate principal amount of bonds of said original authorization of \$20,000 which have not been issued and the proceeds of which are not now required for the purpose originally authorized.

That said company has contracted for the purchase of certain real estate to be used for central office and exchange telephone purposes, located in the city of Nokomis and the village of Waggoner, and hereinafter more fully described; that the aggregate sum of \$3,045 now remains unpaid on the contracts for said real estate; that during the five years next prior to date of the application herein, the petitioner has expended approximately \$15,000 for additions and betterments to its facilities for which it has not been reimbursed by the issuance of securities, it having been the policy of said company to expend its net earnings for additions and betterments in lieu of the payment of dividends; and that the petitioner now desires the consent and approval of the Commission to the issuance and sale of \$3,100, aggregate principal amount of its mortgage bonds, for the purposes of discharging its obligations incurred in the purchase of real estate and reimbursement in part of moneys actually expended for additions and betterments, each as aforesaid.

The Commission having considered the application and the testimony and other evidence presented in support thereof, and being fully advised in the premises, is of the opinion, and finds:

1. That the money to be procured from the issuance and sale of the bonds for which authority is sought, is reasonably required for the purposes hereinbefore stated; that the expenditures actually made and proposed to be made for said purposes were and are reasonably necessary and required and are not in whole or in part reasonably chargeable to operating expenses or to income, and that the prayer of the petitioner for authority to issue and sell \$3,100 aggregate principal amount of its mortgage bonds for said purposes and as hereinafter authorized is reasonable and should be granted.

2. That the authorization heretofore granted to the petitioner for the issuance and sale of its bonds under Authorization No. 45, Docket No. 2703, should be revoked and cancelled to the extent of \$3,100 aggregate principal amount of said bonds.

It is, therefore, ordered by the Illinois Commerce Commission, That the Peoples Mutual Telephone Company be, and it is hereby, authorized to issue and sell \$3,100 aggregate principal amount of its mortgage bonds, dated September 1, 1914, maturing September 1, 1924, bearing interest at the rate of 6 per cent. per annum, and to be issued under and secured by the mortgage or deed of trust of said company, dated September 1, 1914, copy of which is on file with the Commission.

It is further ordered, That the authority to issue and sell said bonds be, and it is hereby, granted upon the following conditions and not otherwise:

(1) That the petitioner shall sell the bonds herein authorized to be issued so as to net said company not less than 95 per cent. of the face value thereof, besides accrued interest thereon, and the proceeds therefrom shall be applied to the following purposes and no other:

(a) For acquisition of property, described as follows: the south 25 feet of lot 4 and the north 37½ feet of lot 5 in block 31 of the original town, now city, of Nokomis, Illinois, or for the discharge of its obligations incurred therefor under its contract to purchase said property	\$2,475 00
(b) For acquisition of property, described as follows: the east half of lot 5 in block 16 of the original town of Waggoner, Illinois, or the discharge of its obligations incurred therefor under its contract to purchase said property	570 00
(c) For reimbursement in part of moneys expended from its treasury for additions and betterments during the five years next prior to date of application herein, and for which it has not been reimbursed by the issuance of securities	55 00
TOTAL	<hr/> \$3,100 00

(2) That all discounts, commissions and expenses in connection with the approval, issuance and sale of the bonds herein authorized to be issued shall be amortized out of the income of said company prior to the date of maturity of said bonds by the payment of equal monthly or annual installments sufficient for such purpose; *provided, however*, that said company may, at any time prior to the complete amortization of said discounts, commissions and expenses, charge to profit and loss account the entire amount then remaining unamortized.

(3) That said company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale or disposal of the bonds herein authorized to be issued and sold, and within thirty days after the date of this order and every ninety days thereafter, until the sale of all such bonds and the application of the proceeds therefrom have been reported to the Commission in compliance with this order, said company shall file a report (in duplicate) with the Commission, which report shall be signed and verified by an executive officer of said company having knowledge of the facts, and shall show: (a) the amount of bonds sold during such period; (b) the date of such sale or sales; (c) to whom such bonds were sold; (d) amount of proceeds realized from such sale or sales; (e) amount of such proceeds expended for the purpose (or for each of the purposes) authorized in this order; (f) any other terms or conditions of sale. Such reports shall continue to be filed until all of the bonds herein authorized shall have been sold and the use and application of the proceeds therefrom reported to the Commission; and if during any such period no sales are made or proceeds expended, a report shall be filed stating such facts. When all transactions relating to the issuance of the bonds herein authorized and the use of the proceeds therefrom have been completed, a final report thereon shall be filed forthwith, in lieu of a report at the end of the then current ninety days' period.

(4) That said company shall, before the delivery of any

of the bonds herein authorized to be issued, cause to be printed, stamped or engraved upon the face of each of said bonds, for the proper and easy identification thereof, the following:

ILLINOIS COMMERCE COMMISSION,

Authorization No. 1289,

March, 1922.

(5) That the authorization heretofore granted to the petitioner for the issuance and sale of its mortgage bonds under Authorization No. 45, Docket No. 2703, be, and the same is hereby, revoked and cancelled to the extent of \$3,100 aggregate principal amount of said bonds.

It is further ordered, That no fee be charged the Peoples Mutual Telephone Company on account of the bonds by this order authorized to be issued, said bonds being in substitution for bonds heretofore authorized to be issued and upon which said company has paid the statutory fee.

By order of the Commission, at Springfield, Illinois, this second day of March, 1922.

In re APPLICATION OF THE DEKALB COUNTY TELEPHONE
COMPANY FOR PERMISSION TO ISSUE AND SELL FIRST
MORTGAGE BONDS.

Case No. 12187.

Decided March 2, 1922.

**Issue of Bonds Authorized — Amortization of Discounts and Expenses
in Connection with Sale of Bonds Provided.**

OPINION AND ORDER.

Application having been made to the Illinois Commerce Commission by the DeKalb County Telephone Company for the consent and approval of the Commission to the issuance by said company of \$40,000 aggregate principal amount

of its first mortgage bonds, hereinafter more fully described, and a hearing having been held upon said application, and the petitioner having presented its evidence, and the matter having been duly submitted to the Commission for disposition, it appears:

That said DeKalb County Telephone Company is a corporation duly organized and existing under and by virtue of the laws of the State of Illinois, with its principal office in the city of Sycamore, county of DeKalb, and State of Illinois, and is a public utility within the meaning of Section 10, Article I, of an Act Concerning Public Utilities, approved June 29, 1921, and now in force in Illinois; that it owns and operates a telephone system extending over a large portion of said DeKalb County and into adjoining counties in Illinois, and is duly authorized by its articles of incorporation so to do.

That the balance sheet of said company as of December 31, 1921, copy of which is filed herein, shows its total fixed capital account on the asset side thereof in the amount of \$433,438.63, and on the liability side thereof is shown its outstanding capital stock in the aggregate par amount of \$263,120 (all of which is common stock), and its bills payable (short term notes) in the aggregate principal amount of \$30,000; and said balance sheet and the testimony in the record show that there are no outstanding bonds or mortgage indebtedness of said company.

That the annual reports made by said company to the Public Utilities Commission of Illinois were, by reference, made a part of the record herein; and that said reports, together with the aforesaid balance sheet of said company show the net additions to fixed capital account, or expenditures actually made by said company for the acquisition of property, or for the construction, extension or improvement of or addition to its facilities, during the period beginning June 30, 1915, and ended December 31, 1921, as follows:

June 30, 1915, to December 31, 1915.....	\$590 62
January 1, 1916, to December 31, 1916.....	3,714 01
January 1, 1917, to December 31, 1917.....	4,776 62
January 1, 1918, to December 31, 1918.....	19,025 60
January 1, 1919, to December 31, 1919.....	22,887 09
January 1, 1920, to December 31, 1920.....	30,026 77
January 1, 1921, to December 31, 1921.....	18,667 30
<hr/>	
TOTAL NET ADDITIONS	\$99,688 01
Less capital stock authorized by Public Utilities Commission	
May 26, 1920 (Authorization No. 1028, Docket No. 10528)*	65,783 33
<hr/>	
BALANCE	\$33,904 68

That said balance of \$33,904.68 represents the sum of the aforesaid expenditures made during the five years next preceding the date of application herein for which the petitioner has not been reimbursed by money procured by the issuance of stocks, bonds or other evidences of indebtedness (except short term notes).

That said company represents that its business, especially in the city of Sycamore, has outgrown its facilities, and that good management and operation require that certain conduits be laid and cables installed in said city, and that the cost of said proposed improvements will exceed the sum of \$20,000.

That the petitioner now desires the consent and approval of the Commission to the issuance and sale of \$40,000 aggregate principal amount of its first mortgage bonds, dated March 1, 1922, maturing March 1, 1925, bearing interest at the rate of 6 per cent. per annum, payable semi-annually; said bonds to be issued under and secured by the first mortgage or deed of trust of said company, dated March 1, 1922, to be given to Pierce Trust and Savings Bank (an Illinois corporation), as trustee; said mortgage to secure the payment of bonds in the aggregate principal amount of \$100,000 to mature variously on March 1, 1925, 1930 and 1932, and to be a lien upon all of the property at

* See Commission Leaflet No. 104, p. 1070.

present owned or that may be acquired by said company; and providing, among other things, for the redemption of said bonds on March 1, 1924, or on any interest date thereafter, at a premium of 1 per cent. and containing other usual and appropriate provisions; said mortgage to be executed and delivered in form substantially the same as that submitted herein; and that the petitioner proposes to apply the proceeds from the sale of said \$40,000 aggregate principal amount of bonds (a) to the reimbursement of its treasury for expenditures made therefrom for additions and betterments and (b) to make said improvements and additions to its facilities.

The Commission having considered the application and the testimony and other evidence presented in support thereof, and being fully advised in the premises, is of the opinion, and finds:

That the money to be procured by said company from the issuance and sale of its bonds, for which authority is sought, is reasonably required for the purposes hereinbefore set forth; that said expenditures for additions and betterments actually made and proposed to be made, were and are reasonably necessary and required and that the same are not in whole or in part reasonably chargeable to operating expenses or to income; and that the prayer of the petitioner for authority to issue and sell \$40,000 aggregate principal amount of its first mortgage bonds for the aforesaid purposes, and as hereinafter authorized, is reasonable and should be granted.

It is, therefore, ordered by the Illinois Commerce Commission, That the DeKalb County Telephone Company be, and it is hereby, authorized to issue \$40,000 aggregate principal amount of its first mortgage bonds, dated March 1, 1922, maturing March 1, 1925, bearing interest at the rate of 6 per cent. per annum, payable semi-annually, and to be issued under and secured by the first mortgage or deed of trust, dated March 1, 1922, to be given by said company to Pierce Trust and Savings Bank, as trustee; said mortgage to be executed and delivered in form sub-

stantially the same as that submitted herein by the petitioner and a copy of said mortgage as finally executed to be filed with the Commission.

It is further ordered, That authority to issue said bonds be, and the same is hereby, granted upon the following conditions and not otherwise:

(1) That the petitioner shall sell the said bonds herein authorized to be issued so as to net said company not less than 97.20 per cent. of the face value thereof, besides accrued interest thereon, and the proceeds therefrom shall be applied to the following purposes and no other:

(a) For reimbursement of the treasury of said company for moneys actually expended from income or from other moneys in its treasury not directly or indirectly secured by or obtained from the issuance of stocks or stock certificates, or bonds, notes or other evidences of indebtedness (except short term notes), within a period of five years next prior to the date of filing of the application herein, or for the discharge or lawful refunding of obligations incurred therefor, as hereinbefore set forth	\$33,904 68
(b) To apply on proposed expenditures for the construction, extension or improvement of or addition to its facilities (estimated at more than \$20,000), as hereinbefore set forth	6,095 32
TOTAL	\$40,000 00

(2) That all discounts, commissions and expenses in connection with the approval, issuance and sale of the bonds herein authorized to be issued shall be amortized out of the income of said company prior to the date of maturity of said bonds by the payment of equal monthly or annual installments sufficient for such purpose; *provided, however,* that said company may, at any time prior to the complete amortization of said discounts, commissions and expenses, charge to profit and loss account the entire amount then remaining unamortized.

(3) That said company shall keep separate, true and accurate accounts showing the receipt and application in

detail of the proceeds of the sale or disposal of the bonds herein authorized to be issued, and within thirty days after the date of this order and every ninety days thereafter, until the sale of all such bonds and the application of the proceeds therefrom have been reported to the Commission in compliance with this order, said company shall file a report (in duplicate) with the Commission, which report shall be signed and verified by an executive officer of said company having knowledge of the facts, and shall show: (a) the amount of bonds sold during such period; (b) the date of such sale or sales; (c) to whom such bonds were sold; (d) amount of proceeds realized from such sale or sales; (e) amount of such proceeds expended for the purpose (or for each of the purposes) authorized in this order; (f) detailed statement of expenditures made for new construction; (g) any other terms or conditions of sale. Such reports shall continue to be filed until all of the bonds herein authorized shall have been sold and the use and application of the proceeds therefrom reported to the Commission; and if during any such period no sales are made or proceeds expended, a report shall be filed stating such facts. When all transactions relating to the issue of the securities herein authorized and the use of proceeds therefrom have been completed, a final report thereon shall be filed forthwith, in lieu of a report at the end of the then current ninety days' period.

(4) That said company shall, before the delivery of any of the bonds herein authorized to be issued, cause to be printed, stamped or engraved upon the face of each of said bonds for the proper and easy identification thereof, the following:

ILLINOIS COMMERCE COMMISSION,

Authorization No. 1287,

March, 1922.

It is further ordered, That the DeKalb County Telephone Company be, and it is hereby, charged an amount equal to 10 cents for every \$100 of the bonds authorized

by this order to be issued, said charge amounting to \$40.00, and the same shall be paid into the State Treasury before any of said bonds shall be issued.

By order of the Commission, at Springfield, Illinois, this second day of March, 1922.

In re PROPOSED ADVANCE IN RATES OF THE MAHOMET TELEPHONE COMPANY.

Case No. 10202.

Decided March 8, 1922.

Value Determined — Increase in Rates Authorized — Amount Ordered Set Aside on Monthly Basis for Reserve for Depreciation.

OPINION AND ORDER.

On February 11, 1920, the Mahomet Telephone Company filed Rate Schedule I. P. U. C. 1, in which it was proposed to increase the rates for telephone service furnished in Mahomet, county of Champaign, and vicinity. A hearing in the matter being deemed necessary, the Public Utilities Commission entered an order suspending the proposed increase in rates until July 14, 1920, and subsequently resuspended the effective date pending complete investigation. The present and proposed rates are as follows:

	<i>Net Annual Rates</i>	
	<i>Present</i>	<i>Proposed</i>
Individual line, business stations.....	\$20 00	\$24 00
Individual line, residence stations.....	12 00	15 00
Rural party line, residence stations.....	15 00	18 00

All interested parties having been notified, the matter came on for hearing before the Commission on March 16, 1920, January 7, 1921, and January 18, 1922. At these hearings evidence was submitted including an inventory and appraisal of the physical property involved; a comparative statement of operating income and expenses for

the years 1919, 1920, and 1921; statement of classification and distribution of subscribers' stations as of January 6, 1921, and of December 28, 1921; and proof of publication of notice of intention to apply for authority to increase rates. It was stipulated that the annual reports of the Mahomet Telephone Company on file with the Commission might also become part of the record in this case by reference, and that any report as to the valuation of the physical property prepared by the engineering department of the Commission could become part of the record without cross-examination. At the hearing on January 7, 1921, the Mahomet Telephone Company made a motion that the rate for individual line business service, as stated in I. P. U. C. 1, be increased to \$27.00 per annum with the provision that a discount of 25 cents per month be applied in case payment for rental was made during the first month of the current quarter, and the motion was granted.

The record shows that on December 28, 1921, service was being furnished 355 subscribers' stations, distributed and classified as follows:

	<i>Number of Stations</i>	<i>Annual Rates</i>	<i>Annual Income</i>
Individual line, business stations.....	28	\$20 00	\$560 00
Individual line, residence stations.....	117	12 00	1,404 00
Rural party line, residence stations.....	207	15 00	3,105 00
Extension stations	3	6 00	18 00
TOTAL	355		\$5,087 00

The plant is of the magneto type with both metallic and grounded circuits. The inventory and appraisals as submitted by the Mahomet Telephone Company show an estimated original cost of the physical property to be \$24,228. The reproduction cost new, on the basis of 1915 to 1919 unit prices, is \$33,394, and the reproduction cost new less depreciation, is \$23,638. The petitioner estimates the development cost, or going value, of the property to be \$2,391, and the working capital to be \$800, making the total original cost \$27,419, and the depreciated reproduction cost \$26,829.

The valuation submitted by the engineering section of the Commission, which became a part of the record in this case by stipulation, shows a reproduction cost new, including materials and supplies, of \$25,962, using fair average prices for labor and material from 1912 to 1916, inclusive, and the depreciated reproduction cost to be \$19,096. Working capital is estimated to be \$838. A reasonable value of the property of the Mahomet Telephone Company including working capital and all other elements of value, tangible and intangible, as of January 1, 1921, for rate-making purposes, appears to be \$22,000.

A public utility is required to replace the various units of its property as they reach the end of their useful period. The cost of such replacement is not a direct charge to operation, but to the depreciation account. Funds for this purpose are properly obtained by setting aside from earnings a sufficient sum each year to maintain the integrity of the investment. These annual contributions constitute the depreciation reserve.

Section 14 of the Illinois Commerce Commission Act provides:

"The Commission may from time to time ascertain and determine and by order fix the proper and adequate rate of depreciation of the several classes of property for each utility."

From a consideration of the extent and character of the plant as shown by the record in this cause, the annual depreciation now occurring in the physical portion of the plant appears to be \$1,500.

The Mahomet Telephone Company submitted a statement of the operating revenue and expenses for the year 1921. This exhibit shows that the annual operating expenses for the year 1921, including an allowance of \$1,500 for depreciation reserve and also including taxes, are \$6,581. The total annual operating revenue for the year 1921, including that portion of toll revenue properly allocable to the local plant and also including revenue from service connection charges, is \$5,622. The operating

result, therefore, under the present schedule of rates is a net annual deficit of \$959.

The engineering section of the Commission submitted an exhibit showing the operating expenses, including taxes, for the year 1920, to be \$6,215, and the operating expenses for the year 1921, to be \$5,850. The engineering staff of the Commission also submitted an estimate of operating expenses for the ensuing year based upon a careful study of the operating conditions at Mahomet. The annual operating expense is estimated by the engineering staff to be \$5,300, and from careful consideration of the record herein this estimate appears to be reasonable. The operating revenue for the year 1921 under the present schedule of rates is \$5,622, and assuming these rates would remain in effect, the net annual income for the ensuing year would be \$322, which would be 1.46 per cent. on the fair value of the property hereinafter found.

The record shows that the management of the Mahomet Telephone Company prefers that the proposed gross rate of \$21.00 per annum for rural party line station be changed to \$20.00 per station, per annum. Assuming that the present number of subscribers will be maintained with the distribution and classification as of December 28, 1921, an increase in annual operating revenue of \$877 will be realized by the application of the proposed rates, modified as to the rate for rural service.

It is also appropriate to call attention to a petition filed by 134 patrons of the Mahomet Telephone Company from which it appears that approval is given to a reasonable increase in the rates to be charged for telephone service. This petition reads as follows:

“ To the Public Utilities Commission of the State of Illinois:

We, the undersigned, residents of the village of Mahomet, and vicinity, and patrons of the Mahomet Telephone Company, recognizing the great increase in the cost of material and labor, and in the general cost of operation, hereby signify our willingness and approval of a reasonable increase in the rates to be charged for service by said company.”

After careful consideration of the record, the Commission is of the opinion, and finds:

1. That the fair value of the property of the Mahomet Telephone Company, used and useful in the furnishing of telephone service in Mahomet, county of Champaign, and vicinity, including all elements of value, tangible and intangible, as of January 1, 1921, for rate-making purposes, is \$22,000.

2. That a reasonable annual allowance as an item of operating expense to provide a reserve against depreciation, is \$1,500, plus 6 per cent. of the cost of all annual additions that may be made to the plant of the Mahomet Telephone Company in the future.

3. That a reasonable estimate of annual operating expenses of the Mahomet Telephone Company, for the ensuing year, including the allowance fixed by the Commission for depreciation and also including taxes, is \$5,300, and the annual operating revenue under the present schedule, using as a basis the year ending December 31, 1921, is \$5,622, thus resulting in a net annual income of \$322, which is a return of 1.46 per cent. on \$22,000.

4. That the present schedule of rates is unjust and unreasonable in that the rates now in effect are not sufficient to meet the operating expenses, provide a reasonable depreciation reserve, and yield a reasonable return upon the invested capital.

5. That the modified schedule of rates hereinafter authorized will result in a net annual income under the proposed rate of \$1,199, thus providing a return of approximately 5.46 per cent. on \$22,000.

It is, therefore, ordered by the Illinois Commerce Commission, as follows:

Section 1. That Rate Schedule I. P. U. C. 1, of the Mahomet Telephone Company, be, and the same is hereby, permanently suspended, cancelled and annulled.

Section 2. That the Mahomet Telephone Company be, and the same is hereby, permitted and authorized to file

the following schedule of rates, to be designated as I. P. U. C. 2, covering telephone service in the village of Mahomet, county of Champaign, and vicinity, effective April 1, 1922, *provided* the said schedule of rates is filed with the Commission within ten days of the date of the service of the order; or effective at any subsequent date, *provided* the said schedule of rates is filed with the Commission not less than ten days prior to the effective date of the schedule; and the said schedule of rates, when filed with the Commission, as specified herein, and posted or filed in the office of the public utility, all as required by the Illinois Commerce Commission Act and General Order No. 28,* as modified, adopted by the Commission, shall be the legal rates covering telephone service in the village of Mahomet, county of Champaign, and vicinity. The schedule of rates shall be stated in words and figures as follows:

SCHEDULE OF RATES.

<i>Classification</i>	<i>Net Annual Rates</i>
Individual line, business stations.....	\$24 00
Individual line, residence stations.....	15 00
Rural party line, residence stations.....	17 00
Extension stations	6 00

NOTE: All bills are payable quarterly in advance at the office of the company, and if not paid on or before the end of the first month of the current quarter, a penalty of 75 cents per quarter will be added to the above rates, except that no penalty shall be applied on the rate for extension stations.

Section 3. That the Mahomet Telephone Company shall set aside a monthly allowance of \$125 to provide for a reasonable depreciation reserve, plus 6 per cent. of the cost per annum of all annual additions that may be made to the plant of the Mahomet Telephone Company in the future.

Section 4. That all items of expense having to do with the upkeep of the plant shall be treated strictly in accord-

* See Commission Leaflet No. 104, p. 962.

ance with the Uniform System of Accounts for Telephone Companies now in effect by this Commission, particular attention being given to the proper proportionment between maintenance expense and expense due to depreciation of plant and equipment.

By order of the Commission, at Springfield, Illinois, this eighth day of March, 1922.

In re PROPOSED INCREASE IN RATES OF THE FOOSLAND
TELEPHONE COMPANY.

Case No. 10786.

Decided March 8, 1922.

Increase in Rates Authorized — Amount Ordered Set Aside Monthly for Reserve for Depreciation.

OPINION AND ORDER.

On July 6, 1920, the Foosland Telephone Company filed a revised schedule of rates for telephone service furnished in Foosland, county of Champaign, and vicinity. A hearing in the matter being deemed necessary, the Commission entered an order on July 19, 1920, suspending the proposed increased rates until December 3, 1920, and subsequently resuspended the said rates pending a complete investigation. The present and proposed rates as subsequently modified by the company are as follows:

	<i>Annual Rates</i>	
	<i>Present</i>	<i>Proposed</i>
Individual line, business stations.....	\$24 00	\$36 00
Individual line, residence stations.....	18 00	24 00
Party line, residence stations.....	15 00	21 00
Rural party line, residence stations.....	18 00	24 00
Switching, Foos farm line.....	4 00	8 00
Private line to Lotus, Illinois.....	30 00	42 00

All interested parties having been notified the matter came on for hearing before the Commission on May 19.

1921, at which time the Foosland Telephone Company was represented by *J. M. Steele*, manager, and no one appeared objecting.

It having developed that the rate for certain classes of telephone service had been omitted from Rate Schedule I. P. U. C. 1, the Foosland Telephone Company at the hearing on May 19, 1921, asked consent to amend the said schedule to include all classes of telephone service furnished, and permission to so amend Rate Schedule I. P. U. C. 1, was granted.

The Foosland Telephone Company submitted a statement showing the classification and distribution of subscribers' stations and also the operating income and expenses for the year ending December 31, 1920, and same became part of the record. It was also stipulated that any report which might be prepared by the Commission's engineering staff in reference to the cause herein could be considered a part of the record without cross-examination of the engineer who prepared the report.

The record shows that service is being furnished by the Foosland Telephone Company to 87 subscribers, classified and distributed as follows:

<i>Classification</i>	<i>Number of Stations</i>	<i>Annual Rates</i>	<i>Annual Income</i>
Individual line, business stations.....	7	\$24 00	\$168 00
Individual line, residence stations.....	12	18 00	216 00
Party line, residence stations.....	24	15 00	360 00
Party line, rural stations.....	36	18 00	648 00
Switching stations on Foos farm line...	8	4 00	32 00
TOTAL		87	\$1,424 00
Private line to Lotus, Illinois.....	.....	30 00	30 00
TOTAL		87	\$1,454 00

The plant is of magneto type with grounded circuits. The Foosland Telephone Company did not submit an inventory and appraisal of the physical property but stated in the record that the company estimated the value of the property at present to be approximately \$3,500.

The record contains no evidence as to the original cost of the property but from investigation made by the engineering section of the Commission it would appear that the telephone property of the petitioner is worth no less than \$3,500.

The record does not show that publication of notice of intention to apply for authority to increase rates was made, but the report of the engineering staff indicates that notice of intention to apply for authority to increase rates was given to each individual subscriber and no objection to the proposed increase was made by the subscribers.

A public utility is required to replace the various units of its property as they reach the end of their useful period. The cost of such replacements is not a direct charge to operation but to depreciation account, and funds for this purpose are properly obtained by setting aside from earnings a sufficient sum each year to maintain the integrity of the investment. These annual contributions constitute the depreciation reserve and the record shows that the Foosland Telephone Company estimated that an amount of \$350 should be set aside annually to provide a reserve against depreciation.

The report submitted by the engineering department shows that \$522 should be set aside annually as a reserve against accruing depreciation to protect the integrity of the capital invested in the telephone property of the Foosland Telephone Company. In arriving at this amount no consideration was given to interest accruing to the reserve. From a consideration of the extent and character of the plant as shown by the record in this case, the amount that should be set aside annually to provide against depreciation now occurring in the physical portion of the plant appears to be \$396.

The present annual operating expense as determined from an analysis of the company's expenses by the Commission's engineering staff, including an annual allowance of \$396 as hereinafter ordered by the Commission as a reserve for accruing depreciation, is \$2,027. The annual

operating revenue under the present rates, including the commissions on toll messages handled by the Foosland Telephone Company during the year 1920, is \$1,521. The operating result, therefore, under the present schedule of rates is a net annual deficit of \$506.

Assuming that the present number of subscribers' stations will be maintained with the distribution and classification probable under the proposed rates an increase in annual operating revenues of \$560 will be realized. This increase in operating revenues will result in a net annual income of \$54.00 which is a return of approximately 1.5 per cent. upon a minimum value of \$3,500.

A study of the present and proposed rates of the Foosland Telephone Company, and comparison of such rates with rates for similar telephone service furnished by other telephone utilities operating in Illinois, indicate that the rates proposed by the Foosland Telephone Company are higher than the average considering the extent of the service furnished. The territory served is limited, and from a study of the record it appears that for the Foosland Telephone Company to maintain any service whatever, a rate in excess of the average rate for service must be charged. The record shows that approximately 60 of the 79 rental subscribers of the company are stockholders, and are willing to pay the increased rate in order to continue securing service. Furthermore, the record shows that the other 19 parties have not entered objection to the increased rates, nor has opposition been entered by the 8 switching subscribers. In view of this situation it appears that the increased rates should be approved.

After careful consideration of the record, the Commission is of the opinion, and finds:

1. That a reasonable annual allowance as an item of expense to meet accruing depreciation is \$396, plus 6 per cent. of the cost of all annual additions that may be made to the plant of the Foosland Telephone Company after May 15, 1921.

2. That the present annual operating expense, including the allowance fixed by the Commission for depreciation, is \$2,027, and the annual operating revenue under the present schedule of rates is \$1,521, thus resulting in a net annual deficit of \$506.

3. That the present schedule of rates is unjust and unreasonable in that the rates now in effect are not sufficient to meet the operating expenses and provide a reasonable depreciation reserve.

4. That the proposed schedule of rates will increase the annual operating revenues by approximately \$560, thus resulting in a net annual income of \$54.00, which is a return of approximately 1.5 per cent. upon a minimum value of \$3,500, which can not be considered excessive.

It is, therefore, ordered by the Illinois Commerce Commission as follows:

Section 1. That Rate Schedule I. P. U. C. 1, of the Foosland Telephone Company, applying to telephone service furnished in the town of Foosland, county of Champaign, and vicinity, be, and the same is hereby, permanently suspended, cancelled and annulled.

Section 2. That the Foosland Telephone Company be, and the same is hereby, authorized to file the following schedule of rates to be designated as I. P. U. C. 2, covering telephone service in the town of Foosland, county of Champaign, and vicinity, effective April 1, 1922, *provided* the said schedule of rates is filed within ten days of the date of service of this order; or effective on any subsequent date, *provided* the said schedule of rates is filed with the Commission not less than ten days prior to the effective date of the schedule; and the said schedule of rates, when filed with the Commission, as specified herein, and posted or filed in the office of the public utility, all as required by the Illinois Commerce Commission Act of Illinois and General Order No. 28,* as amended, adopted by the Commission, shall be the legal rates covering telephone service

* See Commission Leaflet No. 104, p. 962.

in the town of Foosland, county of Champaign, and vicinity.
The schedule of rates authorized herein shall be stated
in words and figures as follows:

<i>Modified Schedule</i>	<i>Annual Rates</i>
Individual line, business stations	\$36 00
Individual line, residence stations	24 00
Party line, residence stations	21 00
Rural party line, residence stations.....	24 00
Switching, Foos farm line.....	8 00
Private line to Lotus, Illinois.....	42 00

Section 3. That the Foosland Telephone Company set aside a monthly allowance of \$33.00 to provide a reasonable depreciation reserve, plus 6 per cent. of the cost per annum of all annual additions that may be made to the plant from May 15, 1921.

Section 4. That all items of expense having to do with the upkeep of the plant except those specifically designated in Section 14 Uniform System of Accounts for Telephone Companies issued by the Commission shall be charged to Account 115, Depreciation of Plant and Equipment.

By order of the Commission, at Springfield, Illinois, this eighth day of March, 1922.

In re PROPOSED INCREASE IN RATES OF THE SHILOH MUTUAL
TELEPHONE COMPANY.

Case No. 11978.

Decided March 21, 1922.

Additional Charge Authorized Where Bills Are Not Paid Within Specified Time.

OPINION AND ORDER.

On October 11, 1921, the Shiloh Mutual Telephone Company filed Rate Schedule I. P. U. C. 3, in which it is proposed to increase the rates at present in effect the sum of \$2.00 per station, per annum, and to allow a discount

of \$2.00 per annum if the annual rental is paid in full within a certain specified period. A hearing in the matter being deemed necessary, the Commission entered an order suspending the proposed increase in rates until March 11, 1922.

All interested parties having been notified the matter came on for hearing before the Commission on December 6, 1921, at which hearing the Shiloh Mutual Telephone Company was represented by *F. A. Timm*, president, and no one appeared objecting. Testimony was submitted in reference to the annual operating revenues and expenses of the company, the amount of rentals unpaid as of December 2, 1921, and the methods now in use by the company in collecting the annual rentals. The company also submitted proof of publication of notice of intention to apply for authority to increase the rates.

From the record it appears that the annual operating revenues at present are only sufficient to meet the necessary operating expenses without providing a reserve against depreciation, or yielding a fair return upon invested capital. Furthermore, it appears that the annual rentals for the year 1921, outstanding on December 2, 1921, amount to \$980, and by reason of the subscribers being scattered over an extended rural territory the expense connected with the collection of the outstanding bills will be a considerable amount, and that the expense of making collections under present conditions is a substantial item in the operation of the telephone system of the Shiloh Mutual Telephone Company.

An increase in rates should be allowed only upon a direct showing that the rates in effect are inadequate to provide a reasonable return upon a fair value of the property used and useful in furnishing service. Therefore, the Commission does not approve of the increase requested for the purpose of allowing the difference as a discount for the prompt payment of the bill.

The Commission is of the opinion, however, that a rule which provides for the collection of an additional charge

when bills are not paid when due is a reasonable rule; and the Commission will approve of a rule which provides for the collection of a charge of \$2.00 per annum in addition to the regular annual charge when bills are not paid when due.

It is, therefore, ordered by the Illinois Commerce Commission as follows:

Section 1. That Rate Schedule I. P. U. C. 5, of the Shiloh Mutual Telephone Company, applying to telephone service furnished in Huntsville, county of Schuyler, and vicinity, be, and the same is hereby, permanently suspended, cancelled and annulled.

Section 2. That the Shiloh Mutual Telephone Company be, and the same is hereby, permitted and authorized to file with the Commission Rate Schedule I. P. U. C. 4, covering telephone service furnished in the village of Huntsville, county of Schuyler, and vicinity, effective April 1, 1922, which said schedule shall include a rule providing for an additional charge of \$2.00 per annum when bills are not paid on or before April 1 of the year in which service is furnished. Such schedule of rates, when filed with the Commission as required by the Illinois Commerce Commission Act and General Order No. 28* adopted by this Commission, shall be the legal rates covering telephone service in Huntsville, county of Schuyler, and vicinity. It is the intent of this order that all rates, rules and regulations shown in I. P. U. C. 4, shall be the same as those now in effect except as otherwise provided by this order.

By order of the Commission, at Springfield, Illinois, this twenty-first day of March, 1922.

* See Commission Leaflet No. 54, p. 21.

In re PROPOSED ADVANCE IN RATES OF THE DANVERS
TELEPHONE COMPANY.

Case No. 11110.

Decided April 6, 1922.

Application for Increased Rates Denied — Present Rates Continued in Effect Temporarily.

CANCELLATION ORDER.

On November 10, 1920, the Danvers Telephone Company filed with the Commission Rate Schedule I. P. U. C. 2 in which it was proposed to increase the rates for telephone service furnished in Danvers and vicinity, county of McLean. From an examination of the proposed schedule it appeared that a hearing should be held as to the reasonableness of the rates, and the Commission, on November 22, 1920, suspended the aforesaid rates until April 10, 1921, and subsequently resuspended them pending a complete investigation.

The case came on for hearing before the Commission at various times, whereat the interested parties were represented by counsel. Evidence was adduced from the company and the Commission's engineering staff, so that the record now contains an inventory and appraisal of the property, statements of operating expenses, revenues and other pertinent facts.

The record shows that under the present rates the total operating revenues with all stations connected for a full year, including toll revenues as reported for the year 1920, amount to \$9,873 and under the proposed rates would amount to \$11,622. As to operating expenses, the latest information of record covers the fiscal year 1920. The record shows that exclusive of depreciation and interest on notes, the operating expenses for 1920 amounted to \$7,389, which gives \$2,484 available for interest and depreciation for that year. It is a matter of common knowledge that costs of labor and material have declined to a marked degree during the last year, so that the cost of operation

under present conditions would not be measured by the cost of operation obtaining in 1920. It therefore appears that under the present rates and present operating costs there would be more than \$2,484 per annum available for depreciation and return, but there is not sufficient information of record to permit the determining of the actual amount.

The evidence of record as to cost and value of the property would indicate that the rate-making base is at least \$25,000. It therefore appears that under 1920 operating costs the present rates will permit the company to earn approximately 10 per cent. for depreciation and return. If the proposed rates were authorized, however, the Danvers Telephone Company would have available for depreciation and return at least \$4,233, which is approximately 17 per cent. of \$25,000. It appears, therefore, that the proposed rates are excessive and should be permanently cancelled. In view of the fact that the Commission has no information before it as to present costs of operation, it is impossible to determine just and reasonable rates for the future. Furthermore, information as to the present cost of operation might show that the present rates should not be disturbed.

The Commission, having considered the record adduced in this case, is of the opinion, and finds, as follows:

1. That Rate Schedule I. P. U. C. 2 filed by the Danvers Telephone Company under date of November 10, 1920, contains unjust and unreasonable rates and same should be permanently annulled and cancelled.

2. That there is not sufficient evidence of record to permit of fixing permanent rates and that, as the present rates have been in effect for some time and are returning at least \$2,484 available for depreciation and return, the said rates should continue in effect, temporarily, as just and reasonable rates until such time as the Commission is presented with evidence showing that new and different rates should be established.

It is, therefore, ordered, That Rate Schedule I. P. U. C. 2 filed by the Danvers Telephone Company on November 10, 1920, proposing to increase the rates for telephone service in Danvers, and vicinity, should be, and the same is hereby, permanently cancelled and annulled.

By order of the Commission, at Springfield, Illinois, this sixth day of April, 1922.*

* On March 21, 1922, applications for increased rates were denied by the Commission, for lack of evidence, in the following cases: *In re Illinois Local Telephone Company* (No. 11078), and *In re Buckley Telephone Company* (No. 11091).

INDIANA.

Public Service Commission.

FARMERS' MUTUAL TELEPHONE COMPANY *v.* PIERCETON
TELEPHONE COMPANY.

No. 6221.

Decided February 21, 1922.

**Physical Connection Ordered — Toll Rates Established and Division of
Tolls Fixed.**

OPINION AND ORDER.

On September 19, 1921, the Farmers' Mutual Telephone Company, hereafter referred to as the Farmers' company, filed with the Commission its petition, averring:

"That it is an Indiana corporation, operating telephone lines and exchanges in the counties of Whitley, Noble, Allen, Dekalb, Huntington, Wabash and Kosciusko; that its principal place of business is at Columbia City; that it has exchanges at Columbia City, South Whitley, Larwill, Laud and Etna in Whitley County; and that it has expended in the building of its plant about \$100,000; and that it has more than 1,400 miles of line;

That it has connection with the towns of Churubusco, Albion, Cromwell, North Webster, Leesburg, Roanoke, and with Warsaw through North Webster, and with the city of Fort Wayne and other towns and cities through exchanges of other companies; that at South Whitley it has in operation 420 telephones, and at Larwill 290 telephones."

The petition further avers:

"That the defendant, the Pierceton Telephone Company, is a corporation duly organized under the laws of the State of Indiana for the building, operating and maintaining of telephone lines and telephone exchanges in the counties of Kosciusko and Whitley; that their principal place of business is at Pierceton, Indiana, and that said telephone company has in service between 500 and 600 telephones; that the subscribers of the said defendant, the Pierceton Telephone Company, live in territory adjacent to the territory of the subscribers of the said plaintiff; that the defendant telephone company has a toll line running from Pierceton to Larwill, which toll line is within three blocks of the exchange of the plaintiff herein; that the Farmers' Mutual Telephone Company's lines

run west from Larwill on the opposite side of the highway from those of the defendant, the Pierceton Telephone Company, to the county line, a distance of $2\frac{1}{2}$ miles west of Larwill; that it would be an advantage to the patrons of each of said companies if the lines of the Pierceton Telephone Company were connected with the Larwill exchange of the Farmers' Mutual Telephone Company, and that if said connection was made it would be of public utility and benefit to the patrons of each of said companies.

And this plaintiff further says that there is a direct connection between South Whitley and Larwill and between Larwill and Etna over the lines of this plaintiff and that the distance from said exchange at Larwill to South Whitley is 8 miles, and the distance from the exchange at Larwill to the Etna exchange is 9 miles, and that plaintiff has 95 subscribers upon the Etna exchange.

And plaintiff further avers that the Whitley County Telephone Company, which is also a corporation operating in Whitley County, Indiana, and adjacent counties, with its principal office at Columbia City, Indiana, has connection with said defendant, the Pierceton Telephone Company, but this plaintiff is not advised as to whether toll is charged by said companies or not, or whether there is a mutual exchange between them of toll business; that the said Whitley County Telephone Company, at its exchange at Larwill, has less than 15 subscribers.

And plaintiff further says that by an agreement with the defendant, the Pierceton Telephone Company, an exchange was to be made, and was made between the Farmers' Mutual Telephone Company, and the Pierceton Telephone Company of toll calls until about December 1, 1919, at which time the defendant notified the Farmers' Mutual Telephone Company that they would not accept from said plaintiff company calls over their lines and since that time have refused to take calls from the Farmers' Mutual Telephone Company, and have instructed their operators to refuse to allow their patrons to call over the Farmers' line or in any way connect with the Farmers' Mutual Telephone Company, or give to the said Farmers' Mutual Telephone Company and its patrons any service over the lines of the said defendant.

And this plaintiff further charges that this company and its patrons have been placed to a disadvantage by the defendant not allowing calls to be made over their lines for the Whitley County subscribers, and not allowing any service for the subscribers of the Farmers' Mutual Telephone Company; that the plaintiff herein has undertaken to get an amicable adjustment with the defendant whereby connection could be made and the subscribers of both companies benefited thereby, but has been unable to reach any satisfactory agreement.

And the plaintiff says that the public is interested and it would be of public utility and convenience if the proper toll connection was made between said companies, and that it is a matter of public interest, right

and justice, and that your Commission should properly adjust said toll charges and toll connections of both of said companies.

Wherefore, your petitioners pray your Commission to give notice to the said defendant and that a time for the hearing of said cause be fixed by said Commission, and to make the necessary order for toll connections of said companies, the Commission prescribe the condition upon which said connection is to be made, the rates to be charged by each of said companies, and in what time the same should be made, and for all other further and proper relief."

To which petition, the Pierceton Telephone Company, on October 25, 1921, filed its answer, averring:

That its principal exchange at Pierceton has a direct connection with the Whitley County Telephone Company's exchange at Larwill, which line from Pierceton to Larwill is in good and serviceable condition; that the Pierceton company owns all of said line; that since the physical connection between the Pierceton company and the Whitley company, a toll rate has been charged to the latter subscribers for calls transmitted from Larwill to Pierceton; that about June, 1919, a physical connection was made between the two exchanges at Larwill by order of the Public Service Commission; that a number of the subscribers of the Farmers' company have occasion to make toll calls between Larwill and Pierceton, but that the Pierceton company and the Whitley company are entitled to a fair compensation for the transmission of such calls; that by means of the physical connection between the Farmers' exchange at Larwill and the Whitley's exchange at Larwill, toll calls can be readily transmitted between Larwill and Pierceton; that if a rate for the payment of said toll calls is established, the Pierceton company will promptly receive and transmit all of said calls;

That the proposed physical connection between the exchange of the Farmers' company and the Pierceton company would necessitate duplication of lines and equipment, and would necessarily cause considerable expense to the Pierceton company, and would be entirely unnecessary, for the reason that service of equal quality can be obtained by means of the physical connection between the exchange of the Farmers' company and that of the Whitley company at Larwill; that in 1917 the Farmers' company filed with the Commission a petition, asking for the same physical connection for which it now prays, but that said physical connection was denied.

Wherefore, the Pierceton Telephone Company prays the Commission that the prayer of the Farmers' company for a physical connection between the lines of petitioner and the Pierceton company be denied, and that the Commission fix a fair and just toll rate between the Farmers' company and the Pierceton company and the Whitley company for all

toll calls from subscribers of the Farmers' company which originate at or pass through its exchange at Larwill, and are to be carried over the lines of the Pierceton company.

On October 15, 1921, there was filed the petition of the Whitley County Telephone Company to be made a party defendant, which petition avers:

That its principal place of business is in Columbia City, and that it owns and maintains various lines and exchanges in Whitley County, among which is an exchange at Larwill, which exchange is physically connected with the Farmers' company exchange at Larwill, and also has a direct connection with the Pierceton company's exchange at Pierceton; that the service requested by the Farmers' company through a physical connection with the lines of the Pierceton company can be more readily affected by means of existing and established physical connection at Larwill, and that the physical connection prayed for by petitioner is not required by public necessity and would not be of public utility or convenience; that a rate should be fixed by the Commission for toll calls from Larwill to Pierceton; that the Whitley company is directly interested in this proceeding, and asks that it be made a party defendant.

At the same time, the Whitley company filed with the Commission its answer, which, among other things, avers:

That in June, 1919, the exchanges of the Farmers' company and the Whitley company at Larwill, Columbia City and South Whitley were physically connected by order of the Public Service Commission; that the Whitley company admits that it has at times refused to transmit toll calls originating from the Farmers' company's subscribers at the town of Larwill over said line to Pierceton, for the reason that the Farmers' company did not offer to pay any compensation for the transmission of said toll calls; that for more than a year prior to June 1, 1921, the physical connection at Larwill was disconnected by the Farmers' company, greatly to the detriment of the Whitley company's service, but that at this time the Farmers' company has made said physical connection; that the Whitley company is ready to transmit over said line to Pierceton all toll calls originating from the subscribers of the Farmers' company at Larwill on the payment of such compensation as the Commission may deem fair and reasonable; that the physical connection between the defendant, the Pierceton company, and the Farmers' company would result in unnecessary expense and direct duplication of lines and equipment, and that it would not be of public benefit;

That through the physical connection between the Farmers' company's exchange and the Whitley company's exchange at South Whitley, under

conditions similar to those involved in this proceeding, the Commission has established a toll rate satisfactory to all parties for toll calls transmitted to North Manchester Telephone Company at North Manchester, in Wabash County, and that the subscribers of petitioner at Larwill can be served in a similar manner through this already established and existing physical connection at Larwill.

Wherefore, the Whitley company prays that the Commission deny the prayer for a physical connection with the lines of the Pierceton company, and that the Commission fix a fair and just rate for toll calls through the South Whitley exchange at Larwill to the exchange of the defendant, the Pierceton Telephone Company, at Pierceton.

After due notice, the matter was heard in the city of Columbia City on January 18, 1922.

It appeared at the hearing that the Whitley Telephone Company has only a few subscribers at its exchange in Larwill, and it was willing to withdraw its exchange at Larwill, thus leaving only the exchange of the Farmers' Mutual Telephone Company at that point; that it would be a matter of nominal expense to connect the lines of the Pierceton company with those of the Farmers' company at Larwill; that the Pierceton company owns all of the toll line from Pierceton to Larwill and that a direct connection would thereby be effected between the system of the Farmers' company and that of the Pierceton company.

The evidence shows that the toll calls between Pierceton and Larwill over a period of time are as follows:

	<i>Pierceton to Larwill</i>	<i>Larwill to Pierceton</i>
<i>1919</i>		
June	40	40
July	70	111
August	108	157
September	110	127
October	71	105
November	105	109
December	49	103
<i>1920</i>		
January	56	72
February	59	115

This is an average of about 178 calls a month both ways, there having been 668 calls from Pierceton to Larwill and 939 calls from Larwill to Pierceton in nine months. Approximately 41 per cent. of the calls were from Pierceton to Larwill and 59 per cent. from Larwill to Pierceton. In view of the fact that the average number of calls per month is less than 200, it appears that a toll charge of 5 cents will be wholly inadequate to compensate either of the companies after a division of tolls was made.

The Commission is of the opinion that a toll charge of 10 cents should be made between Larwill and Pierceton, which, in view of the fact that the Pierceton company owns and maintains all of the toll line, should be divided as follows:

Twenty-five per cent. to the Farmers' company and 75 per cent. to the Pierceton company, regardless of where calls originate.

It is, therefore, ordered by the Public Service Commission of Indiana, That the Pierceton Telephone Company be, and it is, required to make physical connection with the exchange of the Farmer's Mutual Telephone Company at Larwill.

It is further ordered, That a toll rate of 10 cents be, and it is, established between Larwill and Pierceton for calls handled over the toll line of the Pierceton Telephone Company between Pierceton and Larwill, said toll to be divided 25 per cent. to the Farmers' Mutual Telephone Company and 75 per cent. to the Pierceton Telephone Company, regardless of the origin of the call.

It is further ordered, That on or before March 1, 1922, the Farmers' Mutual Telephone Company and the Pierceton Telephone Company shall file with the tariff department of this Commission, and shall post and keep posted in their offices in full view of the public during the entire period such schedule is in effect, a printed or typewritten copy of such schedule of rates, as required by Sections 41-47 of the Public Service Commission Act.

February 21, 1922.

In re PETITION OF THE INDIANA BELL TELEPHONE COMPANY
FOR AUTHORITY TO ISSUE NOTES.

No. 6484.

Decided March 9, 1922.

Issue of Notes Authorized.

OPINION AND ORDER.

On March 7, 1922, the Indiana Bell Telephone Company filed with the Commission its petition averring that it is an Indiana corporation engaged in operating a telephone plant and system throughout the State of Indiana; that petitioner requests authority to issue certain demand notes in the aggregate sum of \$4,000,000 bearing 6 per cent. interest for the following purposes:

- (1) To reimburse the treasury of the petitioner for the following capital expenditures:
- (a) For net additions to plant and equipment from January 1, 1921, to January 31, 1922 \$2,047,436 00
 - (b) For payment to Treasurer of State in full of statutory fee for issuance of capital stock by Indiana Bell Telephone Company under order approved February 23, 1921, Cause No. 5854,* \$3,588,800, at 15 cents per \$100 5,383 20
 - (c) For revenue stamps affixed to capital stock issued under order in Cause No. 5854,* \$3,588,800 1,794 40
- (2) To cover and refund notes and bonds maturing from January 1, 1922, as follows:
- (a) Central Union Telephone Company 7 per cent. notes, given in purchase of Indianapolis Telephone Company property, payment of which notes was assumed and guaranteed by Indiana Bell Telephone Company
 - Maturing April 1, 1922.. \$375,000 00
 - Maturing October 1, 1922. 375,000 00
 - Maturing April 1, 1923.. 375,000 00

* See Commission Leaflet No. 112, p. 673.

Maturing October 1, 1923. \$375,000 00

Maturing April 1, 1924.. 375,000 00

\$1,875,000 00

Said notes were issued and sold through the Bankers Trust Company of New York as trustee under an agreement providing that said notes may be called for payment at any interest-paying period. Said notes have been called for payment April 1, 1922.

- (b) Bonds of the United Telephone Company of Bluffton (now merged with Indiana Bell Telephone Company), maturing January 1, 1923 40,000 00
- (3) To pay for net additions to plant after January 31, 1922 30,386 40

(a) No property is to be acquired through the issuing of said notes, except additions to plant.

(b) Said notes are to be sold for cash, to the American Telephone and Telegraph Company of New York, at the face value thereof, and the petitioner will receive therefor the sum of \$4,000,000.

(c) The financial condition of the petitioner on January 31, 1922, was as follows:

Intangible capital	\$118,009 96
Physical property	30,295,713 26
Investments	325,631 37
Cash and deposits	179,844 04
Receivables, etc.	<u>715,041 92</u>

TOTAL ASSETS	\$31,634,240 55
Capital stock	15,000,000 00
Funded debt	13,389,600 00
Advances from system corporations....	1,018,000 00
Bills payable	40,000 00
Other payables, etc.....	2,506,223 72
Reserves for depreciation.....	1,829,163 92
Surplus	<u>*2,148,747 09</u>

TOTAL LIABILITIES	\$31,634,240 55
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* Deficit.

The petitioner further averred that it was incorporated under the laws of the State of Indiana February 6, 1920; that it operates a system consisting of local exchanges at 92 cities and towns within the State of Indiana, and toll lines throughout the State; that it now has approximately 173,000 stations in connection with its exchanges; that it is necessary for petitioner to have permission to issue its notes in order that it can secure money to reimburse its treasury for capital expenditures, pay off the obligations above enumerated and provide funds for net additions to property.

The statement of the purposes for which said notes are to be issued was submitted to the accounting department of the Commission for checking and verification, which department reported to the Commission that the itemization was correct.

The Commission being fully advised is of the opinion, and finds, that petitioner should be authorized to issue and sell \$4,000,000, face value, of its 6 per cent. demand notes at par and for cash, the proceeds from the sale of which are to be applied for the purposes above set forth and outlined in the petition in this cause, and it will be so ordered.

It is, therefore, ordered by the Public Service Commission of Indiana, That the Indiana Bell Telephone Company be, and it is, authorized to issue and sell at par and for cash \$4,000,000, face value, of its 6 per cent. demand notes for the purposes above enumerated and for no other purposes.

It is further ordered, That before issuing or selling any such securities, the Indiana Bell Telephone Company shall pay to the Treasurer of State, through the secretary of this Commission, the sum of \$6,000, the fee for the issuance of such securities prescribed in Section 96 of the Public Service Commission Act.

March 9, 1922.

In re PETITION OF THE CADWALLADER TELEPHONE COMPANY
(LLOYD CHRISTLEY, RECEIVER) FOR AUTHORITY TO ESTABLISH
SYSTEM RATE AND TOLL RATE BETWEEN PINE
VILLAGE AND THE CADWALLADER SYSTEM.

No. 6405.

Decided March 10, 1922.

Extra Monthly Charge for System Service Authorized.

OPINION AND ORDER.

On January 5, 1921, Lloyd Christley, Receiver of the Cadwallader Telephone Company, filed with the Commission his petition alleging in substance:

That he is acting as Receiver of the Cadwallader Telephone Company by virtue of his appointment by the Superior Court of Tippecanoe County, Indiana; that upon the petition of a former receiver the Commission in its Cause No. 5826 directed that the Cadwallader system be divided into three operating units as follows:

First unit, West Lebanon, Marshfield and State Line.

Second unit, Williamsport, Rainsville and Judyville.

Third unit, Ambia, Pence and Tab.

That in said order the Commission directed that there be free service between the exchanges contained in any one unit, but that there be a toll charge of 10 cents between the Williamsport unit and the Pine Village exchange; the Pine Village exchange, however, was not a party to the proceeding in which the order was issued and has never applied said toll rate;

That subsequent to said order of the Commission the Receiver by order of court has abandoned the exchange at Judyville and is serving the former patrons of that exchange from other exchanges of his system, and that by order of court he is now engaged in transferring to various exchanges of his system and to exchanges operated by others, the subscribers served by the Rainsville exchange, and that when this transfer is complete the Rainsville exchange will be closed and the second unit of the system will consist of the Williamsport exchange alone;

That a great number of the subscribers of the Cadwallader system, accustomed to free service between all its exchanges, became dissatisfied because of the toll rate between said units and that the result was a loss of a great number of subscribers;

That many of the subscribers of the system desire and need service between the units at a regular monthly charge and that this need and

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service can be provided for by the establishment of a system rate of 50 cents per month to all subscribers desiring service to all the exchanges of the system, but preserving the free service within the units and the toll charge between the units for all who do not choose to pay such system rate;

That C. J. Shackleton owns and operates a telephone exchange at Pine Village and that before the organization of the Cadwallader Telephone Company the then owner of the Williamsport exchange and the said C. J. Shackleton exchange constructed a joint trunk or toll line between Williamsport and Pine Village and agreed that each exchange was to receive and retain all the tolls collected by it;

That Williamsport is the county seat and has a population of about 1,200, while Pine Village has about 400 population;

That Pine Village gives to all of its subscribers for a flat rate the unlimited use of the toll line to Williamsport while the Cadwallader company charges 10 cents for calls from its exchange to Pine Village and that the flow of traffic between Pine Village and Williamsport originates largely at Pine Village;

That the petitioner checked such calls for the six months ending July 31, 1921, and found that in such period the calls from Pine Village to Williamsport aggregated 1,620, while calls from Williamsport to Pine Village aggregated 349, and that during such period calls from Pine Village to all Cadwallader exchanges aggregated 4,141, while calls from the Cadwallader exchanges to Pine Village aggregated 895;

That the Pine Village exchange should be required to charge a specific toll rate and to divide the income received by the two exchanges combined on a mileage basis because on account of flow of traffic the toll line is largely monopolized by the Pine Village exchange. The petitioner asks that it be allowed to charge a system rate of 50 cents per month and that the toll service with Pine Village may be adjusted on some equitable basis in order that the service outbound from Pine Village be curtailed or that a division of the income be fixed corresponding with the service rendered by the respective parties.

After due notice to interested parties, the matter was heard at Lafayette on February 2, 1922.

The evidence shows that there has been a loss of subscribers to the Cadwallader system because of the toll charge for calls between the various units in consequence of the fact that free service between all the exchanges had existed prior to the creation of the units and the authorization of said toll charge. The system charge of 50 cents

would appear to be equitable and could work no hardship upon any subscriber since it would be optional with the subscriber whether he would avail himself of this service or not.

The evidence shows that the flow of traffic from Pine Village to the Williamsport and Rainsville exchanges of the Cadwallader system is heavily out of proportion to the flow from Rainsville and Williamsport to Pine Village. The lines between Rainsville and Pine Village and Williamsport and Pine Village belong jointly to the owner of the Pine Village telephone system and the Cadwallader Telephone Company. The owner of the Pine Village exchange objected strongly to the imposition of a toll from Pine Village to the Cadwallader exchanges. He testified that the rates charged his subscribers were fixed in contemplation of toll service to Williamsport and Rainsville without further charge and were intended to cover such services. In view of these circumstances it would seem gratuitous on the part of the Commission to direct the imposition of a toll charge from Pine Village to Williamsport and Rainsville. The question of the division of income from these lines is primarily one of private contract between the owners and only under certain conditions, one to be determined by the Commission.

The Commission being advised in the premises is of the opinion, and finds, that the petitioner should be authorized and directed to charge and collect from such subscribers as desire such service a monthly system charge entitling the subscribers who pay said charge to service of any exchange on the Cadwallader system without the payment of the toll charge previously authorized and now in effect.

The Commission further finds that the prayer of the petitioner for an order directing the owner of the Pine Village Telephone Company to impose a toll charge for calls to certain exchanges of the Cadwallader system or

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for an order regulating the division of the income between the owner of the Pine Village and the Cadwallader system should be denied.

It is, therefore, ordered by the Public Service Commission of Indiana, That Lloyd Christley, Receiver of the Cadwallader Telephone Company, be, and he is, authorized and directed from and after April 1, 1922, to charge and collect from such subscribers of the Cadwallader Telephone Company as desire service to all the exchanges of the Cadwallader system without the payment of the toll charge previously authorized and now in effect, the sum of 50 cents per month, in addition to the regular monthly exchange rate.

It is further ordered, That said Receiver amend the schedule of rates of the Cadwallader Telephone Company now in effect by adding thereto the following provision:

Flat monthly toll charge..... *\$0 50

It is further ordered, That said Receiver on or before April 1, 1922, shall file with the tariff department of this Commission, and shall post and keep posted in its office in full view of the public during the entire period such schedule is in effect, a printed or typewritten copy of the authorized schedule of charges of the Cadwallader Telephone Company, including such amendment, as required by Sections 41-47 of the Public Service Commission Act.

March 10, 1922.

* Subscribers paying this flat monthly toll charge shall be entitled to call without further charge any other subscriber on the Cadwallader system.

In re PETITION OF THE PALMYRA INDEPENDENT TELEPHONE
COMPANY AND EUGENE R. COOPER FOR AUTHORITY TO
PURCHASE AND SELL.

No. 6441.

Decided March 10, 1922.

**Petition to Purchase and Sell Dismissed where only Capital Stock of
Company was being Transferred.**

OPINION AND ORDER.

On February 8, 1922, the Palmyra Independent Telephone Company filed with the Commission its petition for authority to sell its property to Eugene Cooper, who joined in the petition, averring that the present owner is unable to give the business his personal attention, and that in the interest of better service such a sale is advisable.

After due notice, a hearing was held in the offices of the Commission on March 8, 1922.

The evidence shows that the prospective purchaser will enter into a contract with the owner of the stock of the Palmyra Independent Telephone Company for the sale thereof, and that consequently this transaction is a sale of the stock of a corporation operating a public utility and not a sale by the corporation of its corporate assets. The Commission therefore is of the opinion that no authorization is required, as this is merely a sale of stock by the holder thereof to another individual over which the Commission has no jurisdiction.

It is, therefore, ordered by the Public Service Commission of Indiana, That this petition be, and it is, dismissed.

March 10, 1922.

In re PETITION OF THE INDIANA BELL TELEPHONE COMPANY
FOR AUTHORITY TO INCREASE EXCHANGE RATES AT
INDIANAPOLIS.

No. 6110.

Decided March 17, 1922.

**Rates Prescribed in Original Order Established for Certain Exchanges
in Adjacent Territory.**

SUPPLEMENTAL ORDER.

On January 26, 1922, the Public Service Commission of Indiana issued its order* in this cause granting petitioner, the Indiana Bell Telephone Company, authority to charge and collect certain rates for telephone service within the Indianapolis exchange territory, said territory including certain small towns, suburban and rural territory outside the limits of the city of Indianapolis but adjacent thereto. Prior thereto the Commission, in Cause No. 4620, authorized the sale of the property of the Indianapolis Telephone Company and purchase by the Central Union Telephone Company, and the unification of the service of the exchanges of said companies. The order of the Commission in this cause fixed the rates as applying to the unified service when the work of unification was completed.

No evidence was presented nor consideration given to the rates and service of the New Augusta exchange which was formerly a part of the Indianapolis exchange territory of the Indianapolis Telephone Company and the old rates established by that company were continued in force insofar as they applied to the territory immediately adjacent to the New Augusta exchange and the established toll charge of the Indiana Bell Telephone Company for service between subscribers served from the said exchange and the Indianapolis exchange applied thereto.

It now transpires that many subscribers of the New Augusta, Clermont and Acton exchanges desire to be accorded the same service and privileges as are accorded

* See Commission Leaflet No. 124, p. 935.

subscribers of the Indianapolis exchange and to be treated as subscribers of the Indianapolis exchange.

The Commission, as well as the telephone company, has indicated its willingness to accord said subscribers the service which they desire but apparently they have been unable to agree upon the service to be established at the rates proposed, and the Commission has instituted on its own motion an investigation of the matter herein referred to.

It appears that the telephone rates of the Indiana Bell Telephone Company applying at said exchanges formerly operated by the Indianapolis Telephone Company were not increased and that the rates charged by said Indianapolis Telephone Company were continued in effect; that no application for increased rates was made to the Commission because of the contemplated purchase and consolidation of said exchange properties; that the exchanges of the Indianapolis Telephone Company at New Augusta, Clermont and Acton were parts of the Indianapolis exchange properties and operated as such, and were included in the schedule of rates, rules and regulations of said Indianapolis Telephone Company and should be included in the provision of the order in this cause; that approximately 65 per cent. of the subscribers of the New Augusta exchange desire to be included in the Indianapolis exchange territory, and that 90 per cent. or more of its subscribers of the Clermont and Action exchanges desire this service.

Prior to unification, subscribers of said exchanges had free access to approximately 7,000 subscribers in the city of Indianapolis. They would now have, without additional charge, access to approximately 70,000 subscribers, if included in the Indianapolis exchange area, and it would seem to be obviously unfair to expect the telephone company to give subscribers of these outlying exchanges the benefit of this greatly increased exchange area and at the old pre-war rates.

The Commission is of the opinion that the growth of the city of Indianapolis, will, within the near future,

necessitate the including within the Indianapolis exchange territory all the territory referred to, including the towns named, the suburban and rural territory intermediate and adjacent thereto, and that a substantial majority of such subscribers of the exchanges referred to now desire to be so treated, and that the rates, charges, rules and regulations prescribed in the original order* in this cause should apply to the subscribers of said exchanges and the service rendered therefor, and it will be so ordered.

It is, therefore, ordered by the Public Service Commission of Indiana, That the Indiana Bell Telephone Company be, and it is hereby, authorized and directed to charge and collect, effective April 1, 1922, and until the further order of the Commission, for telephone service rendered to subscribers of its exchanges at Clermont, Acton and New Augusta, the schedule of rates prescribed in the original order in this cause, approved January 26, 1922.*

March 17, 1922.

* See Commission Leaflet No. 124, p. 935.

KANSAS.

Public Utilities Commission.

In re APPLICATION OF THE SAWYER-ISABEL TELEPHONE COMPANY FOR PERMISSION TO FILE AND ENFORCE A NEW SCHEDULE OF RATES.

Docket No. 4306.

Decided March 29, 1922.

Increase in Rates Authorized — Telephones in City Schools Classed as Business Service.

ORDER.

This matter came on for hearing before the Public Utilities Commission of the State of Kansas, J. W. Greenleaf sitting, in Isabel, Kansas, on March 24, 1922.

Now on this twenty-ninth day of March, 1922, this matter comes on for final consideration and order; and the Commission, having heard the evidence introduced and after full and complete investigation, and being fully advised in the premises, finds that the present rates for telephone service being furnished by the Sawyer-Isabel Telephone Company at Sawyer, Kansas, and Isabel, Kansas, are inadequate and non-compensatory. The Commission further finds that the following is a fair and reasonable schedule of rates to be charged for telephone service at Sawyer, Kansas, and at Isabel, Kansas:

	<i>Per Month</i>
Individual line, business telephone	\$2 00
Individual line, residence telephone	1 50
Four-party line, residence telephone.....	1 25
Rural party line, residence telephone.....	1 25
Extension sets, extra, business and residence.....	50
Extension bells, extra	25
Extension gongs, extra	50
Desk sets, extra	25

City school houses to be classed as business service for the school period, waiving all reinstallation and reconnection charges.

It is, therefore, by the Commission ordered, That the Sawyer-Isabel Telephone Company be, and it is hereby, authorized to file and put in effect April 1, 1922, a schedule of rates for telephone service at its exchanges located at Sawyer, Kansas, and Isabel, Kansas, as follows:

	<i>Per Month</i>
Individual line, business telephone	\$2 00
Individual line, residence telephone	1 50
Four-party line, residence telephone.....	1 25
Rural party line, residence telephone.....	1 25
Extension sets, extra, business and residence.....	50
Extension bells, extra	25
Extension gongs, extra	50
Desk sets, extra	25

City school houses to be classed as business service for the school period, waiving all reinstallation and reconnection charges.

March 29, 1922.*

In re APPLICATION OF THE HERINGTON COOPERATIVE TELEPHONE EXCHANGE FOR A CERTIFICATE RELATING TO A PROPOSED ISSUE OF CAPITAL STOCK.

Docket No. 4650.

Decided April 15, 1922.

Issue and Sale of Stock Authorized.

CERTIFICATE.

Be it remembered, that on this fifteenth day of April, 1922, came on to be heard the application of the Herington Cooperative Telephone Exchange of Herington, Kansas, filed April 1, 1922, for a certificate relating to a proposed issue of its capital stock in the amount of \$50,000.

* Increased rates were authorized in the following cases:

Pretty Prairie Telephone Company. (No. 4559.) March 29, 1922.

Rosalia Mutual Telephone Company. (No. 4499.) March 29, 1922.

Rock Rural Telephone Company. (No. 4510.) March 30, 1922.

The applicant presented its proofs and testimony in support of its application, and the Commission being fully advised in the premises, finds that a certificate required by law, as hereinafter set forth, should be issued herein.

It is, therefore, by the Commission considered and certified:

1. That the amount of the stock to be issued by the Herington Cooperative Telephone Exchange of Herington, Kansas, is \$50,000, described as follows: 2000 shares at \$25.00 per share.

On February 23, 1917, the Public Utilities Commission issued a certificate granting the Herington Cooperative Telephone Exchange authority to sell \$20,000 of capital stock, divided into 800 shares at \$25.00 each.

On February 3, 1922, the Herington Cooperative Telephone Exchange amended its charter increasing its capital stock from \$20,000 to \$50,000. This application is for permission to sell \$30,000 additional stock, making a total of \$50,000.

2. That the purposes for which said common stock is to be issued are to pay off the existing indebtedness, and to make future extensions and improvements.

3. That the terms upon which said common stock is to be issued are cash at par.

4. That the application herein is in due and proper form as by law required, and that the statements contained in said application, so far as by law required to be therein contained, have been ascertained to be true.

April 15, 1922.

In re APPLICATION OF THE KANSAS CITY TELEPHONE COMPANY
FOR PERMISSION TO INCREASE RATES FOR TELEPHONE
SERVICE IN KANSAS CITY AND ROSEDALE.

Docket No. 4305.

Decided April 25, 1922.

**Temporary Rates Authorized for Kansas City, Kansas, Equal to Rates
Existing in Kansas City, Missouri.**

OPINION.

This application was filed before the Public Utilities Commission of Kansas on September 21, 1921, and about the same date a similar application was filed before the Missouri Public Service Commission for permission to increase rates in Kansas City, Missouri. A hearing was held before the Public Utilities Commission of Kansas on March 13, 1922, in the rooms of the Chamber of Commerce at Kansas City, Kansas.

A hearing had been held before the Public Service Commission of Missouri in September, 1921, and also in November, 1921, and a temporary order issued by the Missouri Commission, granting certain increases in rates considerably lower than those applied for before the Missouri Commission and effective for a temporary period, pending opportunity to make further valuations of the property of the telephone company and to give the service conditions of the company time to become settled and arrange themselves from the chaotic condition into which they were thrown on account of the consolidation* of the Kansas City Home Telephone Company and the Southwestern Bell Telephone Company, which was completed the latter part of January, 1922.

Immediately upon the issuance of the temporary order by the Missouri Commission, the telephone company filed an amended application with the Kansas Commission, wherein it asked permission to charge and put into effect

* See Commission Leaflets No. 90, p. 85, and No. 93, p. 953.

the same rates in Kansas City, Kansas, and Rosedale, Kansas, which had been authorized by the Missouri Commission in Kansas City, Missouri.

At the hearing before the Kansas Commission on March 13, 1922, by stipulation between the representatives of the telephone company and the representatives of the public in Kansas City, Kansas, a large part of the record, which was introduced before the Missouri Commission, was introduced before the Kansas Commission, together with the exhibits used in connection therewith.

At the hearing before the Kansas Commission, the representatives of the public at Kansas City, Kansas, were insistent that in the determination of this case Kansas City, Kansas, be considered as one exchange area with Kansas City, Missouri, and it was represented to the Commission that the people of Kansas City, Kansas, were very desirous that this be done and that the installation of a toll rate between Kansas City, Kansas, and Kansas City, Missouri, be avoided. The representatives of the telephone company also stipulated at the hearing that they were desirous of having this case heard and determined on the basis of greater Kansas City as one telephone area.

Under these circumstances, it then becomes necessary for the Kansas Commission to consider the expenses and revenues of the company with relation to Kansas City, Kansas, and Kansas City, Missouri, and the value of that part of the property of the company which is located in Kansas City, Kansas, and also that part which is located in Kansas City, Missouri. This naturally makes the evidence introduced before the Missouri Commission proper to be considered with reference to the rates to be charged by the telephone company in Kansas City, Kansas.

There has recently been completed in the two Kansas Cities a consolidation of the systems of the Kansas City Home Telephone Company and the Southwestern Bell Telephone Company. This consolidation* was completed the

* See Commission Leaflets No. 90, p. 85, and No. 93, p. 953.

latter part of January, 1922, and has caused an upheaval in the operating conditions of the company, the result of which it is impossible to determine with any degree of accuracy at this time. There is a wide range of difference in the testimony of experts for Kansas City, Kansas, Kansas City, Missouri, and for the company as to what the final result of this consolidation will be.

The Commission realizes that the telephone situation in the Kansas Citys at this time is in more or less of an experimental condition, due to the consolidation and the duplication of equipment which necessarily followed, and that it will require the experience of some time before normal operating conditions will be reached and the actual result of any schedule of rates and of the consolidation realized.

In view of the insistence by the representatives of the city, that the public of Kansas City, Kansas, are insistent that Kansas City, Kansas, and Rosedale, Kansas, be treated as a part of the whole exchange area of greater Kansas City, the Commission is impressed with the theory that since any rate authorized as a result of the present hearing must necessarily, in fairness to the public and the company, be a temporary and experimental one, that the same rates should be in effect in Kansas City, Kansas, as are in effect in Kansas City, Missouri, even though they are separated by an imaginary State line.

In view of the situation as outlined in this opinion, correspondence has been had with the Public Service Commission of Missouri to arrange a joint consideration of this matter by the two Commissions at some future time, probably within the next six months, when operating conditions will have had time to approach normal after the consolidation, and the engineers for both Commissions will have had an opportunity to make a valuation of the property of the telephone company in both States, and the accountants will have had an opportunity to make a further study of the operating revenues and expenses of the company in both States, and a reasonable opportunity will be given the

two Commissions to arrive at what is a fair and reasonable permanent rate to be in effect in both cities.

An order will issue from this Commission, authorizing the publishing and putting into effect of a schedule of rates in Kansas City, Kansas, and Rosedale, Kansas, equal to the schedule now in effect in Kansas City, Missouri, said schedule to become effective May 1, 1922, and to remain in effect for a period of six months therefrom.

ORDER.

Now on this twenty-fifth day of April, 1922, this case comes on for temporary order by the Commission and the Commission having heard the evidence introduced herein and being fully advised in the premises, finds:

That there has recently been completed at Kansas City, Kansas, a consolidation* of the telephone systems of the Kansas City Home Telephone Company and the Southwestern Bell Telephone Company whereby one telephone system is serving the same telephone area with service that was formerly served by two telephone systems. The Commission further finds that on account of the said consolidation it was impossible at the time of the hearing before the Commission to ascertain the value of the property of the Kansas City Telephone Company, used and useful in the business of furnishing telephone service; that the condition of the Kansas City Telephone Company with regard to operating expenses is in an unsettled and chaotic state due to said consolidation, and at the time of the hearing it was impossible to ascertain what a fair and reasonable operating expense of the Kansas City Telephone Company would be under normal conditions.

The Commission further finds that the same telephone company which operates in Kansas City, Kansas, and Rosedale, Kansas, also operates in Kansas City, Missouri, and vicinity, and that the said company treats the city of Kansas City, Kansas, and Rosedale, Kansas, and the city

* See Commission Leaflet No. 93, p. 953.

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of Kansas City, Missouri, and outlying district adjacent thereto, as one telephone area.

The Commission further finds that the Public Service Commission of Missouri recently, on application of the Kansas City Telephone Company, granted the said company permission to charge and put into effect a certain new schedule of rates effective in Kansas City, Missouri, and vicinity. The Commission further finds that the present rate in effect for telephone service in Kansas City, Kansas, and Rosedale, Kansas, is non-compensatory and unreasonable, but that due to the unsettled and abnormal condition of the affairs of the Kansas City Telephone Company at the present time no permanent rate should be filed until opportunity has been afforded the engineers of the Kansas Commission to make a valuation of the property of the telephone company now being used in furnishing telephone service and until conditions have so nearly returned to normal that the Commission may be able to ascertain from the books of the telephone company what are reasonable and necessary operating expenses of the said company.

It is, therefore, by the Commission ordered, That the Kansas City Telephone Company be permitted to file and put into effect, effective May 1, 1922, the attached schedule* of rates for a period of six months from the effective date of said order, and that the Commission retain jurisdiction of this case for the purpose of making a valuation of the property of the telephone company and an investigation of the books of the company as set out herein.

It is further ordered, That at the expiration of six months this order shall be void and of no effect whatsoever unless, and until, some further action is taken by the Commission.

April 25, 1922.

* Omitted.

MARYLAND.

Public Service Commission.

In re APPLICATION OF THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY OF BALTIMORE CITY FOR AN ORDER AUTHORIZING THE ISSUE OF CUMULATIVE PREFERRED STOCK.

Case No. 1990 — Order No. 6862.

Decided April 13, 1922.

Issue of Stock Authorized.

ORDER.

Whereas, The Chesapeake and Potomac Telephone Company of Baltimore City, a corporation organized under the laws of the State of Maryland, has applied to this Commission for an order authorizing the issue of \$3,000,000, par value, of 7 per cent. cumulative preferred stock; and

Whereas, the application having this day come on to be heard after due notice published in accordance with this Commission's Order No. 6853 entered April 4, 1922, and it being the opinion and finding of the Commission after due hearing that the use of the capital to be secured by the issue of the aforesaid \$3,000,000, par value, of 7 per cent. cumulative preferred stock is reasonably required for the purposes of the said corporation as in the said application set forth, to-wit, for the acquisition of property, the construction, completion, extension and improvement of its facilities and the discharge or lawful refunding of its obligations,

It is, therefore, this thirteenth day of April, in the year 1922, by the Public Service Commission of Maryland, ordered:

(1) That The Chesapeake and Potomac Telephone Company of Baltimore City be, and it is hereby, authorized to issue \$3,000,000, par value, of 7 per cent, cumulative

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preferred stock; the said stock to be sold for cash at not less than the par value thereof.

(2) That said The Chesapeake and Potomac Telephone Company of Baltimore City shall make reports duly verified by affidavits, to this Commission as follows:

(a) Upon the issue and sale for cash of the said 7 per cent. cumulative preferred stock, authorized as aforesaid, or any part thereof, the fact of such issue and sale, the terms and conditions thereof and the amount realized therefrom.

(b) At the termination of every period of six months from the date of this order, the disposition and use made of the proceeds of the said 7 per cent. cumulative preferred stock.

April 13, 1922.

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MINNESOTA.

Railroad and Warehouse Commission.

In re APPLICATION OF THE GARDEN VALLEY TELEPHONE COMPANY FOR AUTHORITY TO HAVE THE TOLL RATES WHICH NOW APPLY TO NON-SUBSCRIBERS ONLY MADE APPLICABLE TO ALL USERS AND SUBSCRIBERS OF THE COMPANY.

Decided March 3, 1922.

Toll Charges Applicable to Non-Subscribers Only Made Applicable to All Telephone Users.

ORDER.

Pursuant to notice, hearings in the above-entitled matter were held at Erskine, December 13, 1921, Plummer, December 14, 1921, Fosston, December 15, 1921, Fertile, December 16, 1921.

Mr. Thomas Vollom, business manager, and the company's board of directors, represented the petitioner at the hearings.

Approximately 200 subscribers appeared at the hearings at Erskine, Fosston and Fertile, and 40 at the hearing at Plummer.

No charge is now made to subscribers for the use of the company's toll lines and a general protest was made against discontinuing the present practice. Several subscribers signified their willingness to have their monthly rental increased rather than have the toll charge applied.

The Garden Valley Telephone Company, a corporation, operates exchanges at Brooks, Clearbrook, Erskine, Fertile, Fosston, Gonvick, Gully, Leonard, Lengby, Mentor, McIntosh, Oklee, Plummer, Trail and Winger, Minnesota, and serves approximately 827 town and 2,471 rural stations.

The company's toll lines extend between each of its exchanges and to switching centers at Bejou, Gary, Maple Bay and Dugdale, Minnesota.

The following schedule of toll rates is now in effect for non-subscribers only:

At the present time all subscribers are permitted to use the toll circuits without charge. The petitioner claims that under this plan an abnormal demand for service exists and that the company suffers considerable loss in the operation of its toll line property.

An examination of the records of the company for several years past, develops the fact that the cost of operation has been below the normal expense for companies of its class, and that the revenue derived under the present plan of operation is inadequate.

The Commission is of the opinion that a reasonable toll charge should be made for the use of the toll circuits, thus placing the cost of this service upon the user. This regulation is consistent with general practice and will tend to curtail the number of trivial messages, thereby increasing the present toll facilities without additional investment.

A careful check of the toll rate schedule petitioned for and now in effect shows that the scale of charges are not uniformly applied. The proposed schedule has been corrected to provide a uniform scale of charges.

Upon review of all the facts, the Commission finds that the following schedule of toll rates is fair and reasonable, and that the application of this schedule to all users of the toll lines will not result in producing a net additional income in excess of the requirements of the company for the necessary operating expenses, depreciation and a fair return upon the investment.

It is, therefore, ordered, That the Garden Valley Telephone Company be, and the same is hereby, permitted to place in effect, as of April 1, 1922, the following schedule of toll rates, applicable to all users of the toll line service:

THE INITIAL RATES IN THIS SCHEDULE ARE FOR PERIODS OF THREE MINUTES.

	Bejou	Brooks	Clearbrook	Dugdale	Erskine	Fertile	Fosston	Gary	Gonvick	Gully	Lengby	Leonard	Maple Bay	Mentor	McIntosh	Oklee	Tilden	Trail	Winger
Bejou.....																			
Brooks.....	20	20	20	15	10	10	10	10	20	20	15	25	15	15	10	20	15	20	10
Clearbrook.....	20	20	20	10	10	15	15	30	15	15	20	25	15	20	10	10	10	10	15
Dugdale.....	15	10	25	20	20	25	15	15	25	20	10	10	25	10	15	15	25	10	20
Erskine.....	10	10	20	10	10	10	20	15	15	15	15	20	10	10	10	10	10	15	10
Fertile.....	10	15	25	10	10	20	20	10	25	25	20	30	10	10	15	20	10	20	10
Fosston.....	10	15	15	20	10	20	20	20	10	10	10	15	15	15	10	15	10	10	10
Gary.....	10	20	15	15	15	15	20	25	25	25	15	30	15	20	20	25	15	25	15
Gonvick.....	20	15	10	25	15	25	10	25	10	10	15	15	20	20	15	15	25	10	20
Lengby.....	15	15	10	20	15	25	10	25	15	15	15	15	25	25	10	10	20	15	15
Leonard.....	25	25	10	30	20	30	15	30	10	15	15	25	25	25	20	20	30	15	25
Maple Bay.....	15	15	25	10	10	10	15	15	20	20	20	25	10	10	10	15	10	20	10
Mentor.....	15	10	20	10	10	15	15	15	20	20	20	25	10	10	10	15	10	15	10
McIntosh.....	10	10	15	15	10	15	10	20	15	10	10	20	10	10	10	10	15	10	10
Oklee.....	20	10	15	15	10	20	15	25	15	10	20	20	10	15	15	15	10	15	15
Tilden.....	15	10	25	10	10	10	20	15	25	20	20	30	10	10	10	10	20	20	15
Trail.....	20	10	10	20	15	20	10	25	10	10	15	15	20	15	10	10	15	15	15
Winger.....	10	15	20	15	10	10	10	15	20	15	15	25	20	10	10	15	15	15	15

Where the initial rate is 10 cents and up to and including 25 cents, the overtime charge shall be 5 cents for each additional minute.
Where the initial rate is 30 cents, the overtime charge shall be 10 cents for each additional minute.

Dated at St. Paul, Minnesota, this third day of March, 1922.

In re APPLICATION OF THE FAIRFAX TELEPHONE COMPANY FOR
AUTHORITY TO INCREASE ITS LOCAL AND RURAL RATES.

Decided March 29, 1922.

Increase in Rates Authorized.

ORDER.

W. A. Fiss, subscriber, supported by several other subscribers, objected to an increase in rates unless the lines in their section of the town were reconstructed and the service improved.

The Fairfax Telephone Company, a corporation, serves approximately 163 town stations and performs a switching service for 190 rural connecting line stations.

The present rates of the company are:

	<i>Per Month</i>
Individual line, business, gross	\$2 25
Individual line, residence, gross	1 50
Extension stations, business or residence, gross.....	50
Rural switching charge, net.....	12½

A discount of 25 cents per month is allowed on business and residence gross rates if paid before the fifteenth of the month following that in which the service is rendered.

The petitioner seeks authority to establish and place in effect the following schedule of rates:

	<i>Per Month</i>
Individual line, business, gross	\$3 00
Individual line, residence, gross	2 00
Extension stations, business or residence, gross.....	50
Rural switching charge, net.....	20

A discount of 25 cents per month to be allowed on all gross rates if paid before the fifteenth of the month following that in which the service is rendered.

Statements covering the operations of the company for the years 1917, 1919, and 1921, were submitted, together with an inventory and appraisal of the property.

A careful study of the reports of the company for several years past shows that the cost of operation is comparable

with companies of its class and that the revenue under present rates is not sufficient to cover operating costs, provide for depreciation and permit any return upon the investment.

The exhibits and other evidence introduced failed to support or justify the rates petitioned for. The Commission finds that the following modified schedule of local and rural telephone rates is fair and reasonable and will yield sufficient revenue to provide for the necessary operating expenses, depreciation and a fair return upon the investment.

It is, therefore, ordered, That the Fairfax Telephone Company be, and the same is hereby, permitted to establish and place in effect, as of April 1, 1922, the following schedule of local and rural telephone rates at Fairfax, Minnesota:

	<i>Per Month</i>
Individual line, business, gross	\$2 75
Individual line, residence, gross	1 75
Extension stations, business or residence, net.....	25
Rural switching charge, net.....	20

A discount of 25 cents per month will be allowed on the above gross rates if paid on or before the fifteenth day of the month following the month in which the service is rendered.

Dated at St. Paul, Minnesota, this twenty-ninth day of March, 1922.

MISSOURI.

Public Service Commission.

In re APPLICATION OF THE COLUMBIA TELEPHONE COMPANY
TO INCREASE RATES FOR SERVICE.

Case No. 3123.

Decided March 17, 1922.

**Temporary Value Determined—Cost of Proposed Additions Included
in Valuation—Percentage Toll Revenue Paid to Exchange
Increased to Equal Expense of Toll Service—Temporary
Increase in Rates Authorized Until Required Expendi-
tures Are Made—Schedule of Increased
Rates Fixed, to Become Effective
on Compliance with Orders.**

Application was filed for authority to increase rates for services at Columbia.

The Commission took the values of the property as used for exchange and rural service, and the value of the property in toll line service, as of December 31, 1913, and added thereto the additions made to each between said date and October 31, 1921, and found the value of the exchange and rural property to be \$235,419, and the value of the property in toll service to be \$39,610, making a total value of \$275,029; that it was necessary to increase the switchboard facilities and to eliminate congestion on the rural lines; that the cost of improvement to switchboard facilities would be \$23,814.17, and the cost of improvements to rural lines would be \$5,300, which amounts should be added to the value of the exchange and rural property, making a total value of \$264,533, and including the value of the toll property a combined valuation of \$304,143.

The Commission's accountants made an audit of the operating revenues and expenses for the ten months ended October 31, 1921, which showed an amount available for reserve for depreciation and return from the operation of the city and rural exchange of \$19,893.33, or an annual equivalent of \$23,872, and from the operation of the toll lines an amount for the ten months of \$9,594.43, or an annual equivalent of \$11,513.31, making a total for the year available for depreciation and return from both classes of service of \$35,385.31.

The Commission found that certain adjustments and increases in operating expenses were necessary, and that after such adjustments had been made under present operating conditions, the amount available for depreciation and return from the city and rural exchange would be \$6,274.65; that if the increased revenue from the proposed rates, amounting to \$28,871.28, were added, the amount available for depreciation and return under the proposed rates would equal 13.3 per cent. on the

value of the property used for city and rural exchange purposes exclusive of the toll property; that if the toll revenue, crediting to the exchange 25 per cent. of the amounts received from foreign lines and all the revenues from company-owned lines were included, the percentage available for depreciation and return on the total value of the property with the same adjustments and the same increase in revenues under the proposed rates would be but 11.8 per cent.; that the toll lines were therefore not bearing their proportion of the expense of the exchange.

The Commission determined that where the local exchange was performing the toll service connection that the percentage of toll revenue paid the exchange should at least equal the whole of the operating expenses placed on the local exchange incident to the rendition of toll services; that in line with this policy it would be necessary to increase the percentage of foreign line toll revenue assignable to the exchange from 25 per cent. to 44.44 per cent.; that with this adjustment the amount available for depreciation and return on the total value would be 13.3 per cent.; that in any event the proposed rates were justified, but that the rates as proposed should not become fully effective until the expenditures for additions and betterments had been made; that the rates as proposed should be temporarily reduced until such time as it was reported to the Commission that improvements and betterments had been made as herein required.

Held: That applicant should be permitted to file and make effective, April 1, 1922, a new schedule of temporary rates as set out in the order herein entered;

That applicant should on April 1, 1922, employ and add 8 new operators to its force and thereafter maintain an operating force of not less than 32 employees except as in this order provided;

That applicant should, on or before October 1, 1922, install an additional section of switchboard and other facilities appertaining thereto at an estimated cost of \$23,814.17, and after such installation employ 3 additional operators and maintain thereafter an operating force of not less than 35;

That upon compliance with the above requirements applicant should be permitted to withdraw the schedule of rates above-mentioned and file the proposed new schedule of rates to become effective on the first day of the first calendar month following that during which the Commission shall have signified its satisfaction with the compliance of the foregoing requirements;

That on or before October 1, 1922, applicant should make expenditures for the improvement of its rural line facilities in an amount estimated at not less than \$5,300, and upon proof of compliance with this requirement applicant should be authorized to withdraw the schedule of temporary farm rates referred to above, and substitute increased rates as set out in the order for rural line service.

REPORT.

This cause is before the Commission by reason of an amended schedule filed by the Columbia Telephone Company on August 3, 1921.

The applicant is engaged in furnishing exchange and toll telephone service to the city of Columbia and territory immediately surrounding said city.

By appropriate orders of the Commission the effective date of the amended schedule has been held in abeyance, a hearing thereupon was accorded all interested parties before two members of the Commission at the city of Columbia during the month of January, 1922, and the cause now comes on regularly for decision.

The following table, covering the full calendar year 1921, will visualize the whole rate schedule amendments involved:

Revenue Derived from Present Rates

Revenue Derived from Proposed Rates

Number of Stations	Rate	Actual Revenue	Exchange Classification	Number of Stations	Rate	Revenue
231	\$3. 25	\$8,261.98	Desk sets, direct lines	231	\$4. 75	\$12,419.98
203	3.00	6,702.02	Wall sets, direct lines	203	4.50	10,356.02
24	2.75	710.14	Desk, two-party lines	24	3.75	1,007.14
58	2.50	1,595.70	Wall, two-party lines	58	3.50	2,291.70
13	2.25	318.71	Desk, duplicate lines	13	3.75	452.71
10	2.00	217.92	Wall, duplicate lines	10	3.50	397.92
116	.75	130.76	Desk extensions, and bell	116	1.25	226.76
92	.50	501.22	Desk extensions, no bell	92	1.00	1,053.22
44	.50	239.72	Wall extensions	44	1.00	503.72
			<i>Residence Stations</i>			
55	2.25	1,361.86	Desk sets, direct lines	55	2.75	1,691.86
340	2.00	7,409.28	Wall sets, direct lines	340	2.50	9,449.28
57	1.75	1,097.74	Desk, four-party lines	57	2.25	1,439.74
1,201	1.50	19,486.59	Wall, four-party lines	1,201	2.00	26,692.59
18	.75	147.10	Desk extensions, and bell	18	1.00	201.10
73	.50	401.50	Desk extensions, no bell	73	.75	620.50
37	.50	201.57	Wall extensions	37	.75	312.57
			<i>Rooming and Boarding Houses</i>			
7	2.75	209.75	Desk sets, direct lines	7	3.75	293.75
50	2.50	1,375.62	Wall sets, direct lines	50	3.50	1,975.62
4	2.25	98.06	Desk, two-party lines	4	3.25	146.06
171	2.00	3,784.00	Wall, two-party lines	171	3.00	5,816.00
3	.75	24.50	Desk extensions and bell	3	1.25	42.50
12	.50	65.37	Desk extensions, no bell	12	1.00	137.37
20	.50	108.95	Wall extensions	20	1.00	228.95
			<i>University of Missouri</i>			
42	3.25	.....	Desk sets, direct lines	42	4.75	.....
4	3.00	.....	Wall sets, direct lines	4	4.50	.....
27	2.75	.....	Desk, party lines	27	3.75	.....
16	2.50	.....	Wall, party lines	16	3.50	.....
6	.75	.....	Desk extensions and bell	6	1.25	.....
51	.50	.....	Desk extensions, no bell	51	1.00	.....
3	.50	2,590.56	Wall extensions	3	1.00	3,953.76
			<i>Rural Lines</i>			
433	1.50	7,466.57	Residence	433	2.25	11,363.57
15	2.00	346.88	Business	15	3.50	616.88
			<i>P. B. X. Stations</i>			
10	1.50	54.48	Stations	10	.65	72.48
136	.35	523.83	Stations	136	.50	768.63
2	1.50	32.69	P. B. X. switchboard	2	2.50	56.69
3	6.00	196.13	Trunk lines	3	8.00	268.13
4	4.00	174.34	Trunk lines (additional)	4	6.00	270.34
		\$85,824.54	TOTAL			\$95,127.54

The present existing rate schedule of applicant has remained practically without change for the last twelve years.

At the trial of the cause, bottomed upon the proposed new rate schedule, two prominent issues were presented, viz:

(a) Fair present value of applicant's property used and useful in its functioning for the public;

(b) The quality of the service applicant now renders its patrons, and if inefficient, how should it be remedied.

Let us consider the two propositions in their order.

Much time was consumed at the hearing of this cause concerning what should be a proper rate base for the Commission to use in computing investment return.

The applicant has had its exchange and rural property inventoried and appraised by independent engineers whose high standing in their profession is well known to our Commission.

On the other hand, the protestants to the increased rates direct practically all of their attack to an attempted discovery of the exact amount of money actually invested in the telephone property by the present owners thereof throughout the many years of ownership by the present owners.

W. F. Sloan and W. C. Polk, consulting engineers, appraised the company's property on the basis of prices as of December 31, 1922, applied to an inventory made by Sloan as of December 31, 1920.

Sloan estimated the cost of reproduction of the physical city and rural property, including construction overhead costs, at \$381,509. To this figure he added \$3,068 for materials and supplies, \$5,000 for cash working capital and \$44,000 for going value, making a total estimated cost of reproduction of city and rural property of \$433,577. Sloan estimated the cost of reproduction less depreciation, of the physical city and rural property, including construction overhead costs, at \$317,132. To this figure, he added \$2,226 for materials and supplies, \$5,000 for cash working

capital, and \$44,000 for going value, making a total estimated cost of reproduction less depreciation, of city and rural property of \$368,358. Counsel for company states that \$32,147 should be added to Sloan's appraisal to cover additions and betterments made during 1921, making the cost of reproduction \$465,724, and the same, less depreciation, \$400,505, both as of December 31, 1921.

While the forgoing figures taken from Sloan's appraisal purport to cover only the city and rural portions of the company's property, it appears that the toll switchboard has been included therein. Sloan estimates the cost of reproduction new of the central office telephone equipment at \$82,923, while Polk estimates this item at \$52,500. The difference between these estimates, or \$30,423, is an approximate estimate of the amount included in Sloan's appraisal to cover the toll switchboard; and this item, less depreciation, is \$26,620. Deducting these amounts, we find Sloan's adjusted cost of reproduction to be \$435,301, and the same, less depreciation, to be \$373,885, both as of December 31, 1921.

Polk estimated the cost of reproduction of the physical property, city and rural, including construction overhead costs, at \$321,937.35. To this figure, he added \$32,193.74 for contractor's fee, \$3,068 for materials and supplies, \$6,000 for cash working capital and \$22,592.59 for going concern value, making a total estimated cost of reproduction of \$385,791.68 for both city and rural property. To this latter figure, he added \$34,000 to cover additions and betterments made during 1921, thereby getting a total estimated cost of reproduction of city and rural property of \$419,791.68 as of December 31, 1921. The evidence shows that additions and betterments during the year 1921 were \$32,147 instead of \$34,000; consequently Polk's total of \$419,791.68 should be \$417,938.68.

Polk estimated the cost of reproduction new less depreciation, of the physical property, city and rural, including construction overhead costs, at \$265,499. To this figure he added \$26,550 for contractor's fee, \$3,068 for materials

and supplies, \$6,000 for cash working capital and \$22,593 for going concern, making a total estimated cost of reproduction new less depreciation, of city and rural property of \$323,710. To this latter figure, he added \$34,000 to cover additions and betterments made during 1921, thereby getting a total estimated cost of reproduction new less depreciation, of city and rural property of \$357,710 as of December 31, 1921. Additions and betterments during the year 1921 were \$32,147 instead of \$34,000; consequently Polk's total of \$357,710 should be \$355,857.

Sloan's estimate of the cost of reproduction less depreciation, after deducting the toll switchboard is \$373,885. Polk's estimate of the cost of reproduction less depreciation, of the city and rural property, is \$355,857. The excess of Sloan's appraisal over that of Polk is \$18,028. Sloan estimates going value at \$44,000 while Polk's estimate of this item is \$22,593, or \$21,407 less than Sloan's estimate. It, therefore, appears that the difference between the two appraisals is practically limited to the difference in estimates of going value.

In Cases Nos. 69 and 282,* *Sims v. Columbia Telephone Company*, 2 Mo. P. S. C. 256, this Commission found the fair present value of the property of the (1) local exchange, (2) rural lines, and (3) toll lines of the company, as of date December 31, 1913, used and useful by said company in the service of the public, considering said plant and each class of its property as a going concern and taking into account the fact that said plant and each class of its said property is in successful operation, and including engineering, supervision and interest during construction, organization and general expenses, legal expenses, contingent expenses, insurance, general contractor's profit, promotion and other development expenses, working capital and all other elements of value, tangible and intangible, as used in the public service in furnishing telephone service, is as follows:

* See Commission Leaflet No. 42, p. 96.

City exchange	\$105,000
Rural lines	42,000
Toll lines	35,000
TOTAL	\$182,000

Commission accountants made an audit of the company's books, and report plant additions during the period January 1, 1914, to October 31, 1921, as follows:

City exchange	\$79,861
Rural	8,557
Toll	4,610
TOTAL	\$93,028

Tabulating the findings of the Commission in Cases Nos. 69 and 282,* as of December 31, 1913, the additions to plant since that date as reported by Commission accountants, and improvements which the evidence shows are necessary, we have the following:

	<i>City and Rural</i>	<i>Toll</i>	<i>Total</i>
Commission's valuation, December 31, 1913	\$147,000	\$35,000	\$182,000
Additions, December 31, 1913, to October 31, 1921	88,419	4,610	93,029
TOTAL	\$235,419	\$39,610	\$275,029
Proposed addition to switchboard.	23,814	.....	23,814
Farm line improvements.....	5,300	.....	5,300
	\$264,533	\$39,610	\$304,143

The company introduced evidence to show the necessity for additional switchboard facilities. A tentative contract was offered in evidence which shows that the cost of these facilities would be \$23,814.17. In addition, the company introduced evidence showing that it is necessary to spend \$5,300 to eliminate congestion on its rural lines.

We can settle this issue of rate base value, so far as this instant case is concerned, without consuming much space in this decision in so doing.

* See Commission Leaflet No. 42, p. 96.

We are not revaluing this property, as is contemplated by the exhibits covering the Sloan and Polk inventory and appraisals. Before the Commission would feel warranted in placing a new valuation upon this telephone property, bottomed upon the new inventory and appraisals, *supra*, it would unquestionably require its own engineering department to make full physical investigation thereof and as a necessary consequence set the cause down for further hearing upon the whole merits involved.

This issue of the finding of a new permanent rate base value of this property is an issue to be definitely determined in the future course of this case, either by the Commission upon its own initiative, or upon application to the Commission of any interested party, and for that purpose we will hold continuing jurisdiction of both the parties and the subject-matter of the present cause.

The issue of the rate base value of applicant's property was before this Commission in the *Sims Case*,* *supra*, and, upon writ of review, finally reached the Supreme Court of our State. (See *State ex rel. v. Atkinson*, 271 Mo. 28.)

It is indeed unfortunate that applicant and, as well, all interested parties in the controversy could not have secured a final adjudication by the court of the fair present value of applicant's property at the date of the review, but that the adjudication was not made is no fault of the Commission. It, therefore, becomes obvious that so far as this instant case is concerned the only consistent course for our Commission to follow in finding fair present value is to take the former value of applicant's property as found by the Commission after a laborious investigation and full hearing and add subsequent capital expenditure thereto.

The Commission is cognizant of the fact that applicant made a plant account set up on its books of January 1, 1914, of \$222,796 as against the value of \$182,000 as found by the Commission, *supra*. However, this attempted increased property value of \$40,796 so far as the instant

* See Commission Leaflet No. 42, p. 96.

case is concerned is of no interest to the Commission and no attention will be paid thereto, as it only represents a voluntary book entry on the part of the applicant.

It will be time enough to pass upon all facts, circumstances and elements of value in the event we are to pass upon a new valuation of applicant's property as hereinbefore mentioned.

Moreover, we cannot in this case permit a separation of locally-owned toll property from that of exchange and rural lines. In a telephone plant serving a city of the size of Columbia these various elementary units of property value are so completely co-ordinated and inter-dependent that the prescribed policy of the Commission has been to treat the whole of them as a single entity.

Therefore, the finding of the Commission is that as a rate base, for the purposes of the instant case only, a value of \$275,029 should be used. However, as we are going to require additional capital expenditures on the part of applicant for the betterment of service to its subscribers, of \$29,114, it is manifest that said amount should be added making a total value of \$304,143.

On the issue of the character of the service rendered, the applicant frankly admitted in opening its case that it was not giving the class of service that it should. Some testimony was introduced on the part of the protestants citing particular instances of inefficient service. The Commission is particularly interested in seeing that the future service is up to a reasonable standard of efficiency.

At first blush to one familiar with the Columbia Telephone Company, it would appear unreasonable in the extreme that it should be according its patrons any other than a strictly high-grade service. It is generally recognized as one of the best constructed plants, in all detail, of its class in the State of Missouri and is operated by a practical telephone man of long experience in the business. The whole history of the plant conclusively shows that it has never stinted on financial outlays or been subjected to poor management. Where then lies the basic trouble

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that this highly constructed telephone plant must confess to the Commission that for the last few years it has been unable to deliver to its patrons the class of service that it would like to? The answer lies in the fact that the environs of this telephone company place it in a class by itself so far as our experience has enlightened us within our territorial jurisdiction. We have utilized divers data introduced in the record evidence in this case in making various comparisons with other telephone plants situated in cities of our State fairly comparable with Columbia and the resultant effects therefrom place the Columbia plant so completely out of line therewith as to become practically non-comparable. Columbia is primarily a school town. The State University and two large female colleges constitute its principal business assets. This heavy influx of several thousand students into the city of Columbia, covering about three-fourths of each calendar year, is constituted of heavy telephone users but not revenue producers for the telephone company.

The result is that the exchange board of applicant is overwhelmed with work, and its limited number of operators at the exchange board cannot efficiently make the necessary connections for subscribers. The recognized criterion by which to measure switchboard operations is to keep a record of peg counts. The applicant introduced in evidence the result of peg count records which showed an average daily call per telephone of 13.2. However, considerable objection was made to the aforementioned results and the Commission directed that a new peg count be taken on particular days designated by the Commission and at which all parties be represented.

The result of the count taken under direction of the Commission shows an average daily call per telephone of 12.5, which is about twice what is ought to be in a city the size of Columbia.

The following comprehensive exhibit was introduced by applicant and we herein incorporate it that it may make its own explanation, however, with our particular direction

to an examination of the column Daily Calls per Telephone, and as well, Number of Operators:

Location of Telephone Plants	Number of Telephones in Service	Average Annual Rates per Telephone	Average Rate per Month per Telephone	Daily Calls per Telephone	Amount Paid per 100 Calls	Number of positions on Switch-board	Number of Operators
Hannibal.....	3,227	\$30.43	\$2.53	6.7	\$1.24	19	44
Columbia.....	3,327	19.78	1.65	13.2	.42	16	24
Mexico.....	1,275	24.30	2.02	5.1	1.30	9	17
Columbia.....	3,327	19.78	1.65	13.2	.42	16	24
Moberly.....	2,393	28.00	2.33	7.0	1.09	16	34
Columbia.....	3,327	19.78	1.65	13.2	.42	16	24
Sedalia.....	3,653	27.90	2.32	6.8	1.12	21	44
Columbia.....	3,327	19.78	1.65	13.2	.42	16	24
Springfield.....	8,282	33.32	2.78	6.4	1.42	45	106
Columbia.....	3,327	19.78	1.65	13.2	.42	16	24
Webster-Kirkwood.....	3,407	28.17	2.34	5.5	1.40	22	36
Columbia.....	3,327	19.78	1.65	13.2	.42	16	24
Kirkville.....	1,407	28.95	2.49	5.1	1.60	9	17
Columbia.....	3,327	19.78	1.65	13.2	.42	16	24
Marshall.....	1,357	27.45	2.29	5.1	1.50	9	16
Columbia.....	3,327	19.78	1.65	13.2	.42	16	24
Maryville.....	914	25.29	2.13	5.4	1.29	.....	.....
Columbia.....	3,327	19.78	1.65	13.2	.42	16	24
Joplin.....	5,526	37.47	3.12	7.9	1.32	.....	.....
Columbia.....	3,327	19.78	1.65	13.2	.42	16	24
Under the proposed rates the figures for Columbia would be.	3,327	25.58	2.13	13.2	.54	16	24

The Commission has ordered a reduction of 50 per cent. on business stations and 25 cents on residence stations at Hannibal and Moberly, and 50 cents on business stations at Springfield, but the above rates are being collected through a court proceeding. If these slight reductions were made effective, the above comparisons would not be quite so striking at these points, but would still leave Columbia far below them in average rates per telephone, and much less than half the amount received per 100 calls.

Prior to the date of the hearing, applicant employed Geo. P. Player, formerly in the employ of our Commission for many years in the capacity of chief engineer of our telephone department. Mr. Player, from the standpoint of an expert, made a detailed study of all of the unusual operating conditions controlling applicant's plant and filed

as an exhibit in the record evidence, a carefully prepared statement showing his premises and deducted conclusions. Among other recommendations Mr. Player says it is imperative to forthwith install a new section to the switchboard in addition to the new section lately installed. Moreover, that the number of operators should be increased from the present of 24 to that of 41.

The Commission will require the capital expenditure on the part of applicant incident to a new section of the switchboard, but we do not think that we would be warranted at this time in increasing the number of operators to 41, as it would place an additional burden upon the subscribers of applicant, but we will require that 11 new operators be employed which will bring the total to 35. We will further require the applicant to make capital expenditures on the farm lines in the amount of \$5,300, and file proof thereof with the Commission when completed.

The Commission's accountants made an audit of the operating revenues and expenses of the applicant company for the ten months ended October 31, 1921, and in such audit they segregated the toll operations from the exchange operations.

A summary of the ten months' operating results, as found by said accountants, and shown in their report, presented in evidence by James Whitaker, is as follows:

		<i>City and Rural</i>	
<i>Operating Revenues:</i>	<i>Total</i>	<i>Exchange</i>	<i>Toll</i>
<i>City Exchange Revenues:</i>			
Subscribers' stations.....	\$48,417 85	.....	.....
Other revenues.....	675 95	.....	.....
TOTAL.....	\$49,093 80	\$49,093 80	.....
Rural lines.....	6,813 20	6,813 20	.....
Toll lines.....	19,347 08	.....	\$19,347 08
TOTAL REVENUES.....	\$75,254 08	\$55,907 00	\$19,347 08
<i>Operating Expenses:</i>			
Maintenance.....	\$12,718 43	\$11,338 25	\$1,380 18
Traffic.....	17,227 89	11,854 03	5,373 86
Commercial.....	5,734 31	4,725 26	1,009 05
General.....	10,085 69	8,096 13	1,989 56
TOTAL EXPENSES.....	\$45,766 32	\$36,013 67	\$9,752 65
AVAILABLE FOR DEPRECIATION AND RETURN..	\$29,487 76	\$19,893 33	\$9,594 43
ANNUAL EQUIVALENT.....	35,385 31	23,872 00	11,513 31

Certain adjustments in the above operating expenses have been suggested by applicant. These suggested adjustments are as follows:

Add portion of appraisal and hearing expense.

Reapportionment of toll and exchange operators, wages.

Additional operators.

Additional expenses due to added installations.

Considering these in the above order:

Applicant states that the total cost of appraisal and hearing to date is \$2,067.81, and it estimates the additional cost due to subsequent hearing at \$3,500, making a total of \$5,567.81. It requests that this sum be spread over a three-year period and be considered in establishing proper rates. One-third of the amount claimed is \$1,855.94.

We find from the working papers of Accountant Whitaker that as at October 31, 1921, the total amount charged to plant appraisal was \$2,371.87 and to Public Service Commission hearing \$47.90. Commission accountant eliminated from the regular operating expenses of the ten months the sum of \$186.63, making a total known cost for this class of expenditure the sum of \$2,606.40, and considering the cost of hearing since held, and the experts retained, it would seem that the applicant's approximation of total cost is conservative. The Commission has consistently prorated such charges over a three-year period.

For the above reasons we will add to the year's operating expenses, as shown, the sum of \$1,855.94.

Applicant contends that Commission's accountant was given erroneous information in reference to the actual time spent by operators in toll service, and submits an Exhibit No. 7, showing company's estimate of actual service rendered by toll operators.

The amount involved, as stated by applicant, is \$1,721.86. The officials of the company should be best qualified to state just how much time is devoted by each girl to toll operations. Accepting their exhibit as to actual time devoted to toll, we find, however, that the amount involved is considerably larger than they claim. The operators' wage apportionment affected other expenses, such as traffic expenses

and certain general expense items. We have adjusted the expenses in line with company's Exhibit No. 7 and find a divergence of \$2,284.51 for the ten months, or an annual equivalent of \$2,741.41.

We, therefore, decreased the toll expenses and increased the exchange expenses by the above annual amount.

Applicant presented testimony of witnesses Player and Cline, to the effect that several more operators were necessary to properly handle the company's traffic.

Applicant in brief states that 24 operators are now employed. Witness Player testified that 41 girls are necessary to efficiently render service. Mr. Player made a traffic study of conditions obtaining at Columbia and presented his suggestions for relief, in considerable detail. Witness Guthrie introduced a statement showing that Hannibal, Missouri, with 3,227 telephones, maintains a force of 44 operators. Applicant with 3,327 telephones asks for 41 girls.

This Commission has always endeavored to secure for the utility public the best and most efficient service available. The evidence shows conclusively that present conditions at Columbia, with reference to calls handled per girl per hour, is far in excess of normal.

The Commission, in view of all the evidence, will provide in these rates for an increase in operators to 35. This is 6 less than applicant avers to be necessary and 9 less than Hannibal, with 100 less telephones, now employs.

Applicant, in brief and argument, page 21, states the operators' payroll amounts to \$18,096.77, or \$861.75 per operator, per year. Applying \$861.75 per year to 35 operators, would indicate an annual cost of \$30,161.25. However, we believe this estimate to be too high.

Accountant Whitaker's papers show that the payroll for October, 1921 (last month audited) was \$1,724.36. In this sum were the wages of one chief operator at \$125 per month and two night operators at \$80.00 per month each. The rest are paid on an hourly wage ranging from 15 cents to 40 cents per hour. We do not believe it proper

to base calculations on the wages of the increased force on wages of all operators now employed, so will exclude the \$125 and two \$80.00 rates. Upon this basis, the estimated expense of the total 35 operators would be as follows:

Total, October, 1921, operators' wages.....	\$1,724 36
Less one operator at.....	\$125 00
Less two operators at.....	160 00
	<hr/>
	285 00

TOTAL PAID ON HOURLY RATE.....	\$1,439 36
Divide \$1,439.36 by 21 equals \$68.54.	

We have also applied the same methods to September wages, and find practically the same result.

For this reason, we assume the following:

Operators, 32 at \$68.50 per month.....	\$2,192 00
Operators, 1 at 125.00 per month.....	125 00
Operators, 2 at 80.00 per month.....	160 00
	<hr/>
	\$2,477 00

or an annual equivalent of \$29,724. This would be an increase over Commission's accountant's figures as follows: actual for ten months, \$14,793.74 equals \$17,752.49 per annum, and \$29,724 minus \$17,752.49 equals \$12,000 per year increase necessary to raise the force to 35. This sum we shall add to the expenses as shown for the period audited.

The applicant contends for an additional allowance of \$3,537.37 to cover increased insurance, increased maintenance and increased general expense, on account of increased installations, due to the new section of switchboard. The company states additional insurance will amount to \$700. The Commission has little evidence upon which to base any conclusions in this matter. The item of insurance seems definite, but the balance of estimated increase is somewhat general in scope. A considerable increase could be made in installations without seriously affecting the maintenance or certain general expense items. We believe

we are justified in reducing this estimate from \$3,537.37 to \$1,000 and will allow the latter amount.

Adjusting Commission accountant's figures in conformity with the foregoing conclusions, we have:

	<i>Total</i>	<i>City and Rural</i>	<i>Toll</i>
Commission's accountant's operating expense (ten months).....	\$45,766 32	\$36,013 67	\$9,752 65
Annual equivalent.....	54,919 53	43,216 40	11,703 18
Adjust as follows:			
Appraisal and hearing expense (one-third).....	1,855 94	1,855 94	
Reapportionment operators' wages.....		2,741 41	Cr. 2,741 41
Additional operators.....	12,000 00	12,000 00	
Additional other expenses.....	1,000 00	1,000 00	
	<hr/> \$69,775 52	<hr/> \$60,813 75	<hr/> \$8,961 77

With the above adjustments to operating expenses and no increase in the revenues as shown during the year of 1921, the company would earn as follows:

	<i>Total</i>	<i>City and Rural Exchange</i>	<i>Toll</i>
Operating revenues.....	\$90,304 90	\$67,088 40	\$23,216 50
Operating expenses (adjusted).....	69,775 52	60,813 75	8,961 77
AVAILABLE FOR DEPRECIATION AND RETURN..	<hr/> \$20,529 38	<hr/> \$6,274 65	<hr/> \$14,254 73
Valuation.....	304,143 00	264,533 00	39,610 00
Per cent for depreciation and return.....	6 75	2.37	36

The application to increase rates applies only to the exchange rates. From the foregoing results, it is shown that upon the exchange property alone, the company earned from exchange service but 2.37 per cent. for depreciation and return. Applicant shows that Engineer Sloan estimated 7.31 per cent. for annual depreciation, and the company contends for an 8 per cent. return. In other words, this would be a composite of 15.31 per cent. for depreciation and return.

We believe that for a telephone property of the kind operated by applicant, a composite percentage of 14 per cent. would be adequate. Fourteen per cent. on the exchange valuation of \$264,533 equals \$37,034.62; as the actual earnings were but \$6,274.65, it would, therefore, be necessary to increase the exchange rates by \$30,759.97, in order to give applicant a 14 per cent. allowance for depreciation and return.

The applicant submitted two estimates of revenues anticipated from rates. One, prepared by Mr. Hudson, shows the estimated revenue from service charges to be \$95,127.54, and one by Witness Player, shows \$92,571.68. Mr. Player made a deduction of 8.4 per cent. from the contract revenue under proposed rates to agree with the found variation between actual and contract revenue of the year 1921. Mr. Hudson made no such adjustment. The Commission has serious doubt as to the accuracy of such a deduction when the evidence shows that 260 new installations were made after the new section of switchboard was installed, November 5, 1921. Mr. Player's figures would be more favorable to the applicant, but the applicant's attorneys state in their brief that they are willing to use Mr. Hudson's figures and we shall do likewise.

The actual subscribers' station revenues, as found by Accountant Whitaker, for the ten months of 1921, were \$55,213.55; projected to one year, this would be \$66,256.26, and this amount deducted from Mr. Hudson's estimate of \$95,127.54, would indicate an increase from proposed rates of \$28,871.28. Adding this amount to the actual revenues, as found for 1921, we have:

	<i>City and Rural Exchange</i>
Operating revenues (based on ten months, 1921).....	\$67,088 40
Operating expenses (adjusted).....	60,813 75
<hr/>	
AVAILABLE FOR DEPRECIATION AND RETURN (PRESENT RATES)	\$6,274 65
Add increased revenue from proposed rates.....	28,871 28
<hr/>	
AVAILABLE FOR DEPRECIATION AND RETURN (PROPOSED RATES)	\$35,145 93
Valuation	264,533 00
Percentage for depreciation and return.....	13.3

From the above showing, it is evident that the proposed rates will not yield to the applicant an excessive return; in fact, they produce .7 per cent. less than what we believe to be justified.

Now, if we treat this company as many other companies which have been before the Commission, and consider their toll and exchange operations jointly, we find that on the basis used in other cases and under toll contracts, as enjoyed by other exchange companies, the applicant would show a smaller return and depreciation percentage than upon exchange service alone. The applicant, as customary with other exchanges, credits to exchange revenue only 25 per cent. of the actual toll revenue, although a much larger proportion is received.

The Commission accountant's working papers show for the ten months audited, the gross toll revenue, the amount actually received by applicant and 25 per cent. of the gross revenue to be as follows:

	<i>Gross Revenue From Toll</i>	<i>Company Actually Receives</i>	<i>Twenty-five Per Cent. of Gross Revenues</i>
Foreign lines toll.....	\$19,289 15	\$16,065 68	\$4,822 29
Company-owned lines toll...	3,553 24	3,120 60	888 31
Messenger service, net		11 70	11 70
Public news service.....		149 10	149 10
		<hr/>	<hr/>
		\$19,347 08	\$5,871 40
ANNUAL EQUIVALENT		23,216 50	7,045 68

The Commission in former cases has always assigned to exchange the gross toll received from company-owned lines, and sees no reason to depart from that custom in the present case.

In reference to the 25 per cent. on foreign lines toll, it may be stated that the records of this Commission are replete with arguments relative to the adequacy or insufficiency of the 25 per cent. allowance to offset the cost of service. In the present case we have a situation radically different from the general practice, inasmuch as the 25 per cent. accruing to the local company is not limited to a maximum per message. It is this maximum per message that has caused such objection to the 25 per cent. arrangement.

If, in line with the practice of considering all property,

both toll and exchange, the crediting to exchange 25 per cent. of foreign lines toll revenues and all the toll revenues from company-owned lines (over and above the amount allowed other exchanges for originating the toll calls), we would have the following:

Exchange revenue (annual basis).....	\$67,088 40
Toll revenue (foreign lines, 25 per cent).....	\$4,822 29
Toll revenue (owned lines — all of company's proportion)	3,120 60
Messenger service	11 70
Public news service.....	149 10
TOTAL FOR TEN MONTHS.....	\$8,103 69
ANNUAL EQUIVALENT	9,724 43
Gross operating revenues.....	\$76,812 83
Operating expenses (present).....	54,919 58
AVAILABLE FOR DEPRECIATION AND RETURN.....	\$21,893 25
Less:	
Rate case expenses (one-third).....	\$1,855 94
Additional operators	12,000 00
Other increased expenses	1,000 00
	14,855 94
	\$7,037 31
Add:	
Increased revenues from proposed rates.....	28,871 28
AVAILABLE FOR DEPRECIATION AND RETURN.....	\$35,908 59
Valuation, including additional switchboard and farm line improvements	304,143 00
Percentage for depreciation and return.....	11.8

The proposition of just what part of long distance toll revenue should be allocated to the local telephone exchange connected therewith in handling the business for the long distance toll company, is a very much unsettled issue before our Commission.

It not only involves unadjudicated legal propositions, but the facts controlling are so wholly dissimilar in many of the cases brought before our Commission that no

appreciable number of the cases can be measured by a standard criterion. We hope in the near future to work out some concrete base for the purpose of using in these complex, yet very interesting, issues.

However, pending further study of the proposition, our Commission has reached the conclusion that where the local exchange is performing the toll service connection that the percentage of toll revenue paid the exchange must at least equal the whole of the operating expenses placed on the local exchange incident to the rendition of the service.

The requirement must be met at all times, unless because of peculiar and unusual conditions existing incident thereto, a full compliance with the requirement might result in the local exchange being unable to furnish long distance toll service to its patrons. Such instances will only be viewed by the Commission as exceptions to the general rule.

In line with the policy of having toll revenues at least meet the cost of toll services, it will be necessary to increase the percentage of foreign lines toll revenue assignable to exchange from the figure of 25 per cent. to the figure of 44.44 per cent. We arrive at this figure as follows:

As shown hereinbefore, the amount available for depreciation and return on exchange property from exchange service is 13.3 per cent. The percentage available for depreciation and return on the combined property, including in the revenues all the company's proportion of revenue from company-owned toll lines and 25 per cent. on foreign lines, is 11.8 per cent., the difference being practically 1.48 per cent.

In order to determine what percentage of foreign toll lines revenue would be substituted for the 25 per cent. heretofore used, in order to have the combined properties equal the earning capacity of the exchange properties, it is necessary to carry these percentages out about five figures. The 13.3 per cent. is actually 13.28603 per cent.; the 11.8 per cent. is actually 11.80648 per cent., making an actual difference of 1.47955 per cent.

This difference, applied to the total valuation of \$304,143, would show a necessary additional revenue from foreign toll of \$4,499.95. Adding this figure to the annual equivalent of the 25 per cent. of the foreign toll, namely \$5,786.75, equals \$10,286.70, and this latter figure divided by the annual equivalent of the gross foreign tolls, namely \$23,146.98, would show the necessary percentage of foreign toll to be used, as 44.4408 per cent. This calculation can be proven by using the toll property and the toll revenues and toll expenses solely as follows:

Toll Operations:

Toll valuation, $\$39,610 \times 13.28603$ equals.....	\$5,262 60
Toll operating expenses	8,961 77
<hr/>	
NECESSARY GROSS TOLL REVENUE.....	\$14,224 37

Toll Revenues:

Foreign tolls, $\$23,146.98 \times 44.4408$ equals.....	\$10,286 70
Owned lines tolls, $\$4,263.89 \times 87.824$ equals.....	3,744 72
Messenger and news service.....	192 96
<hr/>	
	\$14,224 38

If we, therefore, credit to the revenues the foreign lines toll revenue at the figure of 44.4408 per cent., the percentage available for depreciation and return upon the combined properties would be as follows:

Exchange revenue (annual basis).....	\$67,088 40
Toll revenue (foreign lines, 44.4408 per cent). \$8,572 25	
Toll revenue (owned lines, all of company's proportion)	3,120 60
Messenger service	11 70
Public news service	149 10
<hr/>	
TOTAL FOR TEN MONTHS.....	\$11,853 65
Annual equivalent	14,224 38
<hr/>	
GROSS OPERATING REVENUES.....	\$81,312 78
Operating expenses (present).....	54,919 58
<hr/>	
AVAILABLE FOR DEPRECIATION AND RETURN.....	\$26,393 20

Less:

Rate case expenses (one-third).....	\$1,855 94	
Additional operators	12,000 00	
Other increased expenses	1,000 00	
	<hr/>	\$14,855 94

\$11,537 26

Add:

Increased revenue from proposed rates.....	28,871 28	
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AVAILABLE FOR DEPRECIATION AND RETURN.....	\$40,408 54	
Valuation, including additional switchboard and farm line improvements	304,143 00	
Percentage for depreciation and return.....	13.3	

It is, therefore, very clear that whether considered on the straight exchange basis or upon the customary method of allocating to exchange a certain portion of the toll revenues, the proposed rates are justified.

It becomes manifest that the applicant is justly entitled to charge the rates provided for in its amended schedule. In some instances the new rates are high, but are warranted by reason of the unusual operating conditions under which applicant functions in its public service.

The citizens of Columbia and vicinity cannot reap the benefits of the extraordinary assets caused by its being a school center and at the same time refuse to accept the attendant liabilities therefrom.

We will not permit the new rates to become effective on the rural line service until applicant has made the expenditures thereupon and filed proof thereof with the Commission. Furthermore, it is shown by the evidence in this case that the additional section of switchboard cannot be installed until approximately six months from date the order for same is placed. Three of the new operators to be added would not be required until said section is installed.

We will, therefore, temporarily reduce the proposed increases sought, on certain classes of telephones, until

the switchboard has been installed and proof thereof filed with the Commission. The Commission will require, however, that this additional section be added by October 1, 1922.

The return and depreciation of 13.3 per cent. upon switchboard valuation herein used, viz., \$23,814.17, equals \$3,167.28 and the salaries of three operators at \$822 per annum, each, is \$2,466, or a total of \$5,633.28.

In order to reduce the anticipated increased revenues from proposed rates to meet this temporary saving in expenditures we will, temporarily, reduce the proposed increases on the following classes of stations by the amounts shown below:

	<i>Number of Stations</i>	<i>Increases Sought Per Month</i>	<i>Increases Withheld Per Month</i>
<i>Business:</i>			
Desk and wall sets, direct lines....	434	\$1 50	\$0 50
Desk and wall sets, two-party lines.	82	1 00	25
Desk and wall sets, duplicate lines..	23	1 50	50
<i>University:</i>			
Desk and wall sets, direct lines....	46	1 50	50
Desk and wall sets, party lines....	43	1 00	25
<i>Residence:</i>			
Desk and wall sets, direct lines....	395	50	10
Desk and wall sets, four-party lines	1,258	50	10

The effective temporary rates to be established and which the applicant will be permitted to charge until the requirements hereinbefore recited are met, are as follows:

<i>Business Stations:</i>	<i>Per Month</i>
Desk sets, direct lines.....	\$4 25
Wall sets, direct lines.....	4 00
Desk sets, two-party lines.....	3 50
Wall sets, two-party lines.....	3 25
Desk, duplicate lines	3 25
Wall, duplicate lines	3 00
Desk extensions and bell.....	1 25
Desk extensions, no bell.....	1 00
Wall extensions	1 00

In re APPLICATION OF THE COLUMBIA TELEPHONE CO. 1527

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<i>Residence Stations:</i>	<i>Per Month</i>
Desk sets, direct lines.....	\$2 65
Wall sets, direct lines.....	2 40
Desk sets, four-party lines.....	2 15
Wall sets, four-party lines.....	1 90
Desk extensions and bell.....	1 00
Desk extensions, no bell.....	75
Wall extensions	75

Rooming and Boarding Houses:

Desk sets, direct lines.....	3 75
Wall sets, direct lines.....	3 50
Desk sets, two-party lines.....	3 25
Wall sets, two-party lines.....	3 00
Desk extensions and bell.....	1 25
Desk extensions, no bell.....	1 00
Wall extensions	1 00

University of Missouri:

Desk sets, direct lines.....	4 25
Wall sets, direct lines.....	4 00
Desk sets, party lines.....	3 50
Wall sets, party lines.....	3 25
Desk extensions and bell.....	1 25
Desk extensions, no bell.....	1 00
Wall extensions	1 00

P. B. X. Stations:

Stations	65
Stations	50
P. B. X. switchboard.....	2 50
Trunk lines	8 00
Trunk lines (additional).....	6 00

The applicant will be required to forthwith proceed to carry out the directions and requirements as heretofore enumerated.

An order will issue, with jurisdictional reservation held by the Commission, vacating the suspension order of the amended schedule with effective date of new rates as of April 1, 1922, except as to rural rates which may only become effective upon filing of proof of line improvements as heretofore recited, and except as to temporary reduction in increases on other rates as above set out.

ORDER.

This cause coming on for decision by the Commission, and a hearing having been held and an investigation made of the matters and things involved herein, and the Commission having on the date hereof made and filed its report containing its findings of fact and conclusions thereon, which report is hereby referred to and made a part hereof;

Now, therefore, it is by the Commission ordered, 1. That the Columbia Telephone Company withdraw its schedule of rates filed August 3, 1921, now under suspension and be permitted to file, effective April 1, 1922, a new schedule containing rates as follows:

<i>Business Stations:</i>	<i>Per Month</i>
Desk sets, direct lines.....	\$4 25
Wall sets, direct lines.....	4 00
Desk sets, two-party lines.....	3 50
Wall sets, two-party lines.....	3 25
Desk, duplicate lines	3 25
Wall, duplicate lines	3 00
Desk extensions and bell.....	1 25
Desk extensions, no bell.....	1 00
Wall extensions	1 00
<i>Residence Stations:</i>	
Desk sets, direct lines.....	2 65
Wall sets, direct lines.....	2 40
Desk sets, four-party lines.....	2 15
Wall sets, four-party lines.....	1 90
Desk extensions and bell.....	1 00
Desk extensions, no bell.....	75
Wall extensions	75
<i>Rooming and Boarding Houses:</i>	
Desk sets, direct lines.....	3 75
Wall sets, direct lines.....	3 50
Desk sets, two-party lines.....	3 25
Wall sets, two-party lines.....	3 00
Desk extensions and bell.....	1 25
Desk extensions, no bell.....	1 00
Wall extensions	1 00

<i>University of Missouri:</i>	<i>Per Month</i>
Desk sets, direct lines.....	\$4 25
Wall sets, direct lines.....	4 00
Desk sets, party lines.....	3 50
Wall sets, party lines.....	3 25
Desk extensions and bell.....	1 25
Desk extensions, no bell.....	1 00
Wall extensions ∴.....	1 00

P. B. X. Stations:

Stations	65
Stations	50
P. B. X. switchboard.....	2 50
Trunk lines	8 00
Trunk lines (additional)	6 00

Rural Lines:

Residence	1 50
Business	2 00

Ordered, 2. That the Columbia Telephone Company shall, on April 1, 1922, employ and add 8 new operators to its force, and thereafter maintain an operating force of not less than 32 employees, except as hereinafter provided.

Ordered, 3. That the Columbia Telephone Company shall on or before October 1, 1922, make installation of an additional section of switchboard, and other facilities ordinarily appertaining thereto, at an estimated cost of \$23,814.17 as per exhibit filed in this cause, and after such installation employ 3 additional operators and maintain thereafter an operating force of not less than 35 employees.

Ordered, 4. That the Columbia Telephone Company upon compliance with the requirements prescribed in orders 2 and 3 aforesaid shall, upon satisfactory proof thereof to the Commission, be permitted to withdraw the schedule of rates allowed in *Ordered* 1 hereof and file a new schedule, excepting rural lines, containing rates which shall become effective on the first day of the calendar month, following the month during which the Commission shall have been satisfied with the compliance of its requirements aforesaid, as follows:

*Business Stations:**Per Month*

Desk sets, direct lines.....	\$4 75
Wall sets, direct lines.....	4 50
Desk, two-party lines	3 75
Wall, two-party lines	3 50
Desk, duplicate lines	3 75
Wall, duplicate lines	3 50
Desk extensions and bell.....	1 25
Desk extensions, no bell.....	1 00
Wall extensions	1 00

Residence Stations:

Desk sets, direct lines.....	2 75
Wall sets, direct lines.....	2 50
Desk, four-party lines	2 25
Wall, four-party lines	2 00
Desk extensions and bell.....	1 00
Desk extensions, no bell.....	75
Wall extensions	75

Rooming and Boarding Houses:

Desk sets, direct lines.....	3 75
Wall sets, direct lines.....	3 50
Desk, two-party lines	3 25
Wall, two-party lines	3 00
Desk extensions and bell.....	1 25
Desk extensions, no bell.....	1 00
Wall extensions	1 00

University of Missouri:

Desk sets, direct lines.....	4 75
Wall sets, direct lines.....	4 50
Desk, party lines	3 75
Wall, party lines	3 50
Desk extensions and bell.....	1 25
Desk extensions, no bell.....	1 00
Wall extensions	1 00

P. B. X. Stations:

Stations	65
Stations	50
P. B. X. switchboard.....	2 50
Trunk lines	8 00
Trunk lines (additional)	6 00

Ordered, 5. That the Columbia Telephone Company on or before October 1, 1922, shall make capital expenditures for the improvement of its rural line facilities in an amount estimated at not less than \$5,300, and upon satisfactory proof being made to the Commission of a compliance herewith, the company shall withdraw its present schedule of rates applying to rural line service and be permitted to file a schedule of rates for rural line service, as follows:

<i>Rural Lines:</i>	<i>Per Month</i>
Residence	\$2 25
Business	3 50

Ordered, 6. That the above-mentioned company be permitted to continue to charge the rates as set out in Ordered 1 above as its maximum rates until October 1, 1922, or until otherwise ordered by the Commission; that the Commission retain full and continuing jurisdiction of the parties and subject-matter of this cause to change, modify or amend said rate schedule at any time upon the files and record evidence now before the Commission or that may hereinafter be adduced by the Commission.

Ordered, 7. That the above-named company be required to keep a full and correct account of revenues and expenses of its exchange and file a full and complete verified report thereof with the Commission for the five-months' period ending August 31, 1922, said report to be filed with this Commission not later than September 15, 1922, which report shall be in addition to any other reports required by law.

Ordered, 8. That this order shall be in full force and effect from and after April 1, 1922.

Ordered, 9. That the secretary of the Commission shall forthwith serve upon the parties hereto a certified copy of this order, and that the company shall, on or before the thirtieth day of March, 1922, notify the Commission in the manner prescribed in Section 25 of the Public Service Commission Law, whether the terms of this order are accepted and will be obeyed.

March 17, 1922.

In re SUSPENSION OF RATES OF THE FESTUS TELEPHONE
COMPANY.

Case No. 3213.

Decided April 11, 1922.

Increase in Rates as Proposed Authorized.

ORDER.

The Festus Telephone Company, operating an exchange at Festus, Missouri, having filed with the Commission its P. S. C. Mo. No. 2, cancelling its P. S. C. Mo. No. 1, containing rates and terms of service for exchange and rural service connected with its exchange at Festus, Missouri, the same containing certain increases in rates, and the Commission having on January 6, 1922, suspended the operation of the above proposed increase in rates for a period of one hundred and twenty days from February 1, 1922, to June 1, 1922, and

On April 10, 1922, the Commission having received a contract dated April 7, 1922, signed by the Festus Telephone Company and the subscribers of the aforesaid telephone company, which contract in substance agrees to the proposed rates as set out in the Festus Telephone Company's P. S. C. Mo. No. 2, *supra*; provided, that the telephone company install a new standard switchboard of sufficient capacity to handle all business of the city of Festus and surrounding territory, and to improve the service of its lines and cables in the city of Festus and the surrounding territory within a period of one year from the effective date of the proposed rates;

In view of the above facts, the Commission will permit the rates as proposed above to become effective as of June 1, 1922.

It is, therefore, ordered, 1. That the Festus Telephone Company, of Festus, Missouri, shall put into effect on June 1, 1922, the proposed rates as set out in the Festus Telephone Company's P. S. C. Mo. No. 2.

Ordered, 2. That any and all increases in rates herein authorized or permitted shall continue in force until otherwise ordered by the Commission; that the Commission retains full and continuing jurisdiction of the parties and subject-matter of this cause to change, modify or amend said rate schedule at any time upon the files and record evidence now before the Commission or that may hereinafter be adduced by the Commission.

Ordered, 3. That the above-named company be required to keep a full and correct account of revenues and expenses of its exchange and file a full and complete verified report thereof with the Commission for each calendar year, said annual report to be filed with this Commission not later than thirty days after the ending of such calendar year periods (the first report to be filed for the calendar year ending December 31, 1922), which reports shall be in addition to any other reports required by law.

Ordered, 4. That this order shall be in full force and effect from and after June 1, 1922.

Ordered, 5. That the secretary of the Commission shall forthwith serve upon the parties hereto a certified copy of this order, and that the company shall, on or before the effective date of this order, notify the Commission, in the manner prescribed in Section 25 of the Public Service Commission Law, whether the terms of this order are accepted and will be obeyed.

April 11, 1922.

In re SUSPENSION OF RATES OF THE PLATTE COUNTY TELEPHONE COMPANY.

Case No. 2837.

Decided April 17, 1922.

Temporary Increased Rates Continued as Maximum Rates.

SUPPLEMENTAL ORDER No. 1.

It appearing that the Commission, after due investigation, and after the company named above had submitted satisfactory evidence that the rates for telephone service as charged by it were inadequate, unjust and unreasonable, did, by its order* of record in the above-entitled case on the twenty-second day of March, 1921, permit said company to put certain increased rates into effect for a temporary period under certain terms and conditions, and

It now appearing, further, that the above-named company did show by its verified report on the basis of one year, that the revenues from the operation had not been sufficient to pay an unreasonable rate of return upon the investment,

It is, therefore, ordered, 1. That the above-mentioned company be permitted to continue to charge the present existing rates now on file with this Commission as maximum rates, until otherwise ordered by the Commission; that the Commission retains full and continuing jurisdiction of the parties and subject-matter of this cause to change, modify or amend said rate schedule at any time upon the files and record evidence now before the Commission or that may hereinafter be adduced by the Commission.

Ordered, 2. That the above-named company be required to keep a full and correct account of revenues and expenses of its exchange and file a full and complete verified report thereof with the Commission for each calendar year, said annual report to be filed with this Commission not later than thirty days after the ending of such calendar year

* Noted in Commission Leaflet No. 113, p. 1021.

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periods (the first report to be filed for the calendar year ending December 21, 1922), which reports shall be in addition to any other reports required by law.

Ordered, 3. That this order shall be in full force and effect from and after May 1, 1922.

Ordered, 4. That the secretary of the Commission shall forthwith serve upon the parties hereto a certified copy of this order, and that the company shall, on or before the twenty-eighth day of April, 1922, notify the Commission, in the manner prescribed in Section 25 of the Public Service Commission Law, whether the terms of this order are accepted and will be obeyed.

April 17, 1922.*

CENTRALIA CENTRAL FARM CLUB *v.* HOME TELEPHONE COMPANY.

Case No. 2926.

In re APPLICATION OF HOME TELEPHONE COMPANY ON MOTION FOR MODIFICATION OF ORDER.

Case No. 1888.

Decided April 26, 1922.

Certain Rates Reduced Due in Part to Chaotic Condition of Accounts.

REPORT.

These two cases are before the Commission, upon agreement of all parties of record therein, to be decided by a single order. Both of them relate to the same general subject-matter, and are now both regularly before the Commission for final determination.

* On the same day similar orders were issued *In re Butler-Rich Hill Telephone Company* (No. 1498); *In re Hamilton Telephone Company* (No. 1939); *In re Jasper Telephone Company* (No. 2300); *In re Thomas J. Davis Telephone Lines* (No. 2367); also on April 10, 1922, *In re Independent Telephone Company* (No. 2348).

The Home Telephone Company, defendant in Case No. 2926, and like relator in motion for modification in Case No. 1888, is engaged in furnishing a general telephone business in the city of Centralia.

The rates now charged by the defendant company are as follows:

<i>Class of Service</i>	<i>Rate</i>
<i>Exchange:</i>	<i>Monthly Charge</i>
Business, direct line	\$3 00
Business extension	75
Business, desk set	25
Business, extension bells	25
Residence, direct line	2 00
Residence, four-party line	1 50
Residence extension	75
Residence, desk set	25
Residence, extension bells	25
<i>Rural:</i>	<i>Yearly Charge</i>
Class A	\$6 00
Class B	18 00
Class D	10 00
Desk set	3 00

The foregoing are net rates and provide penalties, if not paid when due, as follows:

If not paid on or before the tenth day of the month following the month of service:

<i>Exchange:</i>	<i>Monthly Charge</i>
Business	\$0 15
Residence	10

If not paid quarterly in advance on or before the twenty-fifth day of the first month of the quarter-year period for which service is being rendered:

<i>Rural:</i>	<i>Quarterly Charge</i>
Class A	\$0 25
Class B	50
Class D	35

The primary issue now before the Commission is that of a request on the part of telephone subscribers for a reduction in the rates heretofore recited.

This telephone company has been before our Commission on several occasions relative to the matters involved in the instant case and we deem it would serve no useful purpose for us to enter into a historical recital thereof, as the resultant effects of the company's very unbusiness-like conduct is reflected in former orders of our Commission. It is the same old story of a business enterprise trying to be conducted without any effective managerial head.

However, the owners of the property have lately taken over full charge of the utility and have promised a complete rehabilitation of its management. We are compelled to await the future for the result thereof.

We caused our accounting department to make a partial audit of the books of entry of the defendant company, and the accountant's report shows that the company is entitled to individual classification, so far as chaotic, unbusiness-like bookkeeping is concerned.

Practical experience over several months actual business of the future can serve as the only safe criterion for us to measure the true business condition of the defendant.

On the face of the report of our accounting department it is shown that the defendant is now securing an excessive return to cover return upon investment and, as well, a reasonable yearly depreciation percentage. Whether or not the report reflects the true condition of defendant's business we cannot say owing to the unfortunate condition of its entry books. However, the defendant alone is responsible for such condition of its books and the burden, under the law, rests upon it to show that it is not collecting an excessive return. This, it has signally failed to do.

We find not only that the \$10.00 yearly rural Class D rate should not be increased at this time, but that the rural Class B rate should be reduced to \$15.00 per year.

Moreover, the defendant is required to forthwith improve

both the above-mentioned rural classes of telephone service to a much better degree of operating efficiency.

We have concluded to make no further reductions in defendant's rates at this time, although such could consistently be done from the record now before us. But as heretofore recited, we are fearful of the merits as reflected from the defendant's books.

It is the intention of the Commission to have its engineering department make a complete inventory and appraisal of defendant's property within the next few months, that we may have a reliable base upon which to bottom all rates collected by the defendant.

The defendant will be required to file an amended rate schedule in conformity with the findings herein reached and charge said amended rates until further orders from the Commission. The effective date of the amended rate schedule will be May 10, 1922, and in the event any advance collections have been made by the defendant covering a period later than said effective date, *supra*, then the defendant will be required to recoup, on the next regular billing, all subscribers who have paid in excess of the new amended schedule after said May 10, 1922.

We make no additional order as to the matter of reparation now undergoing process between the defendant and its subscribers. We think the present management is trying in good faith to follow our former orders thereto concerning, but if any misunderstandings arise therefrom, the same can be brought before us by supplemental petition on the part of anyone directly interested therein.

An order will issue in harmony herewith.

ORDER.

The above-entitled causes being duly at issue before the Commission, and having been regularly heard and submitted by the parties, and a report of the Commission having on the date hereof been made containing its findings of facts and conclusions, which report is hereby referred to and made a part hereof,

Now, after due deliberation, it is ordered, 1. That the motion of the Home Telephone Company in Case No. 1888 should be, and the same is hereby, denied.

Ordered, 2. That the Home Telephone Company, defendant in Case No. 2926, is hereby required, prior to the effective date of this order, May 10, 1922, to file with the Commission in regular form, its amended schedule of rates retaining all therein now contained as on file with the Commission, save and except that of Rural Class B telephone service, which shall be reduced from \$18.00 per year to that of \$15.00 per year; that the Commission retains full and continuing jurisdiction of the parties and subject-matter of this cause to change, modify or amend said rate schedule at any time upon the files and record evidence now before the Commission or that may hereinafter be adduced by the Commission.

Ordered, 3. That the above-named company be required to keep a full and correct account of revenues and expenses of its exchange and file a full and complete verified report thereof with the Commission for each calendar year, said annual report to be filed with this Commission not later than thirty days after the ending of such calendar year period (the first report to be filed for the calendar year ending May 10, 1923), which report shall be in addition to any other reports required by law.

Ordered, 4. That the secretary of the Commission shall forthwith serve upon the parties hereto a certified copy of the report and order herein, and that such parties shall, on or before the effective date of this order, notify the Commission in the manner prescribed in Section 25 of the Public Service Commission Law, whether the terms of this order are accepted and will be obeyed.

April 26, 1922.

NEBRASKA.

State Railway Commission.

In re APPLICATION OF THE MONROE INDEPENDENT TELEPHONE
COMPANY FOR AUTHORITY TO INCREASE RATES.

Application No. 4509.

Decided February 25, 1922.

Authorized Increase in Rates Continued for Further Period.

SUPPLEMENTAL FINDINGS.

Effective September 1, 1921, the Commission authorized* this applicant to make certain increases in rates at its various stations and, at the same time, required that before the increases in rural rates should be made effective definite improvement programs should be carried out and be approved by the Commission. The order was for a period of six months so that the Commission might check against the various requirements made of the company and not extend the schedule of rates unless circumstances warranted. Applicant now asks for an extension period.

The improvement programs required by the Commission for rural properties of this applicant have been carried out only to a minor degree, it apparently being the wish of the subscribers that the service be left in its present condition temporarily rather than to have the increased rates based upon improvements. The company has recognized the force of this argument and has delayed its improvement program. Hence, the rural rate increase was not made effective. Certain rate increases for town subscribers were put into effect, the maximum revenues from which increases will not exceed \$3,500 per annum, or an increase of 6 or 7 per cent. At the same time, industrial depression and other causes have led to some diminution of the number of subscribers of the applicant. This may be illustrated by the

* See Commission Leaflet No. 118, p. 884.

following tabulation of the total number of subscribers at the end of various months as follows:

July 31	3,217
September 30	3,205
October 31	3,184
November 30	3,152
December 31	3,136

The company has had some increase in toll revenues because of the elimination of a certain portion of the free service between exchanges. It is still too early, because of the disturbed industrial condition, to measure the effects. In our opinion the rates provided in the order* of August 15 should be extended. This order will provide for their extension during the year 1922, subject to all of the conditions in the original order* and with particular emphasis on the filing of monthly summary statements with the Commission on regular accounting blanks.

SUPPLEMENTAL ORDER.

It is, therefore, ordered by the Nebraska State Railway Commission, That the Monroe Independent Telephone company be, and it hereby is, authorized to continue the schedule of charges authorized in the original finding* herein until December 31, 1922, subject to all of the conditions in the original order,* and subject to any modifications in the meantime, found proper after due hearing.

It is further ordered, That on or before December 1, 1922, applicant make such further application as circumstances in its judgment warrant and the Commission will, therefore, measure the results of the rates and nature of the service furnished by the company as a preliminary to further findings.

Made and entered at Lincoln, Nebraska, this twenty-fifth day of February, 1922.

* See Commission Leaflet No. 118, p. 884.

In re APPLICATION OF THE GRANT TELEPHONE COMPANY FOR
AUTHORITY TO MAKE CERTAIN INCREASES IN SCHEDULE
OF RATES.

Application No. 4329.

Decided February 28, 1922.

**Temporary Order Providing for Twenty-four-hour Service Continued
Indefinitely — Dividends Limited to 8 Per Cent. on
Outstanding Capital.**

FIRST SUPPLEMENTAL FINDINGS.

In the original order* of the Commission herein the Grant Telephone Company was authorized to publish and collect a rate schedule which provided for twenty-four-hour service to its subscribers. The company in its application set forth its desire to supply this more adequate service and supplemented same by a petition quite generally signed by its subscribers praying that such service be furnished and expressing their willingness to pay a rate sufficient to provide for same.

Under these circumstances, the Commission, authorizing a rate which was presumed to be sufficient, provided for the twenty-four-hour service for a trial period for three months.

No complaints of any sort have reached the Commission during this period either as to rates or service. The conclusion is thus reached that the action taken by the Commission upon the application of the company meets with unanimous approval. The trial period terminates February 28. Under the circumstances the Commission will continue the rate schedule in effect indefinitely, the company being also obliged to continue contemporaneously its twenty-four-hour service.

While the Commission has no reason to think that the company might misuse revenues derived from rates in payment of unjustifiable dividends, nevertheless, as an additional protection to the rate payer that revenues are not

* See Commission Leaflet No. 121, p. 154.

misapplied, the Commission will embody in its order herein a proviso that a return of not to exceed 8 per cent. may be paid upon present outstanding capital stock. This does not operate as a finding of the fair value of the properties and the company is not precluded from making further application at any time for a finding by the Commission as to fair value of the properties upon which a return may be paid.

FIRST SUPPLEMENTAL ORDER.

It is, therefore, ordered by the Nebraska State Railway Commission, That the schedule of rates as authorized to the Grant Telephone Company in the original order* herein be, and the same is hereby, continued in effect for an indefinite period of time; it being further required of the applicant company that contemporaneously with the collection of this rate schedule it supply a twenty-four-hour service each day.

It is further ordered, That, until proper authorization by the Commission, applicant company shall not pay a return in excess of 8 per cent. upon the present outstanding capital stock in amount of \$2,500.

Made and entered at Lincoln, Nebraska, this twenty-eighth day of February, 1922.

In re APPLICATION OF THE VENANGO TELEPHONE COMPANY
FOR AUTHORITY TO PUBLISH A SCHEDULE OF RATES.

Application No. 4294.

Decided March 4, 1922.

Present Rates Continued for Further Period.

THIRD SUPPLEMENTAL ORDER.

In the Commission's original order† herein a schedule of rates was authorized to the Venango Telephone Company, the company having been but recently organized and

* See Commission Leaflet No. 121, p. 154.

† See Commission Leaflet No. 105, p. 1740.

its properties built. Supplemental orders* have mentioned the schedule of rates as authorized in the original order† in effect until January 1, 1922.

The company has been somewhat delinquent in keeping the system of accounts as prescribed by the Commission. It advises that this is due to change in the management of the company whereby the previous manager, who had been keeping the records, retired from the company's payroll. Accordingly, the company is able to supply but very little definite information as to its present financial condition.

The Commission is more or less familiar with the past history of the company and its probable present condition. The properties were built by the citizens of Venango during the very peak of labor and material prices. As a result the per station cost is in excess of \$200. This unusual capital investment of necessity results in a high rate schedule. Service in the main is supplied to stockholders of the company. Officials of the company advise that to reduce rates at this time would be disastrous. The Commission has had no complaint from subscribers of the company as to the schedule which is being collected. Subscribers apparently appreciate the advantage of telephone service and in order to secure same have been willing to invest their money that a telephone plant might be built, and are willing to pay a rental charge which will permit of a continuous service.

It must be apparent to all concerned that the cost of telephone service to the subscriber will in this particular country be somewhat higher than in more favorable locations. The plant was built at a high per station cost. The exchange being small and the rural territory thickly settled all contributed to the cost of service. The country shows its progressive spirit in maintaining under these conditions this modern and necessary convenience.

The Commission's accounting department will render further assistance to this company in establishing its

* Noted in Commission Leaflet No. 116, p. 147.

† See Commission Leaflet No. 105, p. 1740.

accounting system. The company's financial experience will be followed very closely. The present schedule of rates will be continued for a further temporary period of time. The continuance of this schedule at the end of this period will be dependent upon the financial experience of the company. An order in accordance will be issued.

It is, therefore, ordered by the Nebraska State Railway Commission, That, nunc pro tunc as of January 1, 1922, the schedule of rates authorized to the Venango Telephone Company in the original order* herein, be continued in effect for a further period of time, the same terminating January 1, 1923, unless otherwise ordered by the Commission.

It is further ordered, That the applicant company shall furnish detailed reports of receipts and expenditures as of November 1, 1922, the same showing in detail receipts and expenditures of the company as of that date for the ten preceding months.

Made and entered at Lincoln, Nebraska, this fourth day of March, 1922.

In re APPLICATION OF THE FARMERS' AND MERCHANTS' TELEPHONE COMPANY FOR AUTHORITY TO PUBLISH AND COLLECT GROSS AND NET RATES.

Application No. 4727.

Decided March 4, 1922.

Gross and Net Rate Rule Established.

ORDER.

Application was presented by the Farmers' and Merchants' Telephone Company of Julian, Nebraska, requesting authority to publish and collect gross and net rates, the gross rate to be 25 cents in advance of the now authorized exchange rates, and to be collected where service is

* See Commission Leaflet No. 105, p. 1740.

not paid during the first two months of the current quarter. Applicant company advises that it experiences much difficulty in the collection of its rental charges which is resulting in attendant financial embarrassment to the company. It is felt that the application of the gross and net rate rule will operate as a stimulant to prompt payment of rental charges. The common practice of the Commission has been to authorize the gross and net rule where circumstances seem to make this application advisable.

On motion it was, therefore, directed, That the applicant company herein be, and the same is hereby, authorized, effective April 1, 1922, to publish and collect a gross and net schedule of rates, the gross rate to be 25 cents in advance of the now authorized exchange rates and to be collectable where service is not paid for during the first two months of the current quarter.

It is further ordered, That the application of this rule shall not be retroactive and shall be applicable commencing with the current quarter, April 1, 1922.

March 4, 1922.*

In re APPLICATION OF THE FARMERS' HOME TELEPHONE COMPANY FOR AUTHORITY TO MAKE CERTAIN READJUSTMENT IN ITS CAPITAL STOCK ISSUE AND FOR AUTHORITY TO ISSUE AND SELL ADDITIONAL CAPITAL STOCK.

Application No. 4726.

Decided March 23, 1922.

**Issue of Stock Sufficient to Reflect Actual Investment in Property
Authorized—Permission to Declare Stock Dividend Granted
—Issue and Sale of Additional Stock Authorized.**

FINDINGS.

This application is presented by the Farmers' Home Telephone Company of Shelton and Gibbon requesting

* On March 17, 1922, similar orders were entered, *In re Unadilla Union Telephone Company* (No. 4731), and *In re Moorefield Farm and Ranch Telephone Company* (No. 4742).

authority to cancel its now outstanding stock certificates and reissue same that they may more accurately reflect the present fair value of the property; also for authority to issue and sell additional capital stock in amount of \$10,000, the same to be used in replenishing the company's depreciation fund and for additions and betterments.

The financial condition of applicant company and the relationship of its securities to the fair value of its properties is well understood by the Commission, having been given its careful consideration on previous occasions. In fact, this application is in line with procedure which the Commission has suggested the company should follow.

In giving consideration to an application of this company for authority to make certain changes in its rate schedule, it became necessary for the Commission to determine the present fair value of the property for rate-making purposes. After a consideration of various factors entering into fair value the Commission said in part as follows: (Application No. 4070,* Original Order, p. 4)

"We have given considerable study to the issue as it is presented in this application and upon consideration of all of the factors and elements presented have reached the conclusion that \$25,000 represents the present fair value of applicant's property for rate-making purposes."

Furthermore, in a quite recent transfer of the properties the consideration involved amounted to \$25,000 which now represents the actual investment of the present owners in the properties.

At the time of this sale of the properties no readjustment of stock certificates was made whereby the same accurately reflected the fair value of the properties or the owner's investment. The company, accordingly, now has outstanding capital stock in amount of \$10,000 with an actual cash investment of \$25,000. This application is presented requesting authority to reissue its stock certificates so that they may accurately reflect the Commission's finding as to the fair value of the properties and the actual

* See Commission Leaflet No. 105, p. 1713.

investment in the properties by present owners. The questions involved have been so thoroughly considered by the Commission in its previous orders (Application No. 4070, original* and supplemental orders†) that a further discussion at this time would be superfluous. It is the opinion of the Commission that such a readjustment, whereby outstanding securities reflect approximately the fair value of the properties, is only a matter of good business judgment and ordinary prudence. The same will be authorized.

Concerning the sale of additional capital stock — again this has been previously considered by the Commission and recommended. A portion of the monies derived by the sale therefrom are to be used to replenish the company's depreciation reserve, from which reserve funds have been previously borrowed and used to meet charges which are strictly capital in their nature. The company contemplates an active program of reconstruction and development of its properties and alleges that considerable amounts will be necessary from time to time for additions and betterments. The Commission will authorize this issuance, requiring of the company that it report as each \$1,000 of stock has been sold. The company is thoroughly familiar with the Commission's requirements as to the use of monies derived from the sale of capital stock. It is cautioned against using any portion of these revenues for other than strictly capital purposes. The Commission will follow closely the securities reports which are submitted to it from time to time by the company.

ORDER.

It is, therefore, ordered by the Nebraska State Railway Commission, That the Farmers Home Telephone Company be, and it hereby is, authorized to declare and to issue a stock dividend of \$15,000, said stock to be issued to present stockholders of record in full payment for any equity or interest held by them in the property.

* See Commission Leaflet No. 105, p. 1713.

† See Commission Leaflet No. 116, p. 119.

It is further ordered, That in making this readjustment applicant company shall call in all outstanding stock certificates, the par value of which is now \$10.00 per share, and shall issue in lieu thereof new stock certificates, the par of which shall be \$25.00 per share; the company being further required to make such necessary changes and corrections on its stock book as accurately to reflect the above authorized transaction, this authorization being subject to full compliance by applicant with the law governing amendments to its articles of incorporation.

It is further ordered, That applicant company herein be, and the same is hereby, authorized to issue and sell \$10,000 of its capital stock, the same to be sold at not less than par for cash or its equivalent, and the proceeds of which shall be used only for the purpose of reimbursing the depreciation reserve fund, or to cover expenditures for additions and betterments.

It is further ordered, That applicant company shall submit to the Commission detailed reports of receipts and expenditures at such times as sale of stock above authorized shall amount to \$1,000, such reports to be submitted upon blanks to be furnished by the Commission.

Made and entered at Lincoln, Nebraska, this twenty-third day of March, 1922.

In re APPLICATION OF THE ANTELOPE COUNTY MUTUAL TELEPHONE COMPANY FOR AUTHORITY TO PUBLISH A SWITCHING RATE.

Application No. 4685.

Decided March 27, 1922.

Application to Make Switching Charge Against Subscribers of Another Company Denied.

FINDINGS.

This matter comes up for adjustment on application of the Antelope County Mutual Telephone Company of Elgin,

Nebraska, which company is seeking to apply a rate of 50 cents per month for the switching service extended to 57 rural subscribers of the Oakdale Telephone Company of Oakdale, Nebraska. The companies will hereafter be referred to in this finding as the Elgin company and the Oakdale company.

The 57 subscribers in question are located on rural lines of the Oakdale company near and adjacent to the exchange at Elgin. Naturally the subscribers of the Oakdale company, comprising this group, do the major portion of their business dealings in the village of Elgin. A mutual arrangement and agreement between the Elgin company and the Oakdale company, by which this group of subscribers can call in on the Elgin exchange and the Elgin company's subscribers can call out to this group of subscribers, has been in existence for several years, the Oakdale company paying the Elgin company \$100 per year in consideration of the switching work in connection therewith.

Upon the urgent application of the Elgin company for the privilege of charging a rate of 50 cents per month for the switching of the 57 Oakdale subscribers, who enjoy the partial use of the Elgin exchange, the Commission made an investigation and heard the interested parties at Elgin, Nebraska, on March 17, 1922. The Elgin company based its justification for its claim on a previous finding of this Commission, made by Commissioner Taylor after a hearing on December 3, 1919,* for an increase in rates to be charged by applicant company, which finding reads in part as follows:

"The (Elgin) company has filed and has in effect a rate for switching farm lines of 50 cents per month. We find, however, that it has a different rate in effect for two farm line companies for which it furnishes service. * * * In the opinion of the Commission, the practice the company has followed of charging the subscribers of these two companies a less rate than it charges to other subscribers, results in discrimination and should be discontinued by increasing the rates of these two companies to the regular basis of 50 cents per month."

* See Commission Leaflet No. 100, p. 1492.

The evidence did not disclose a real need for additional revenue for the Elgin company. The financial showing of the Elgin company indicated that under the rates now being charged for all classes of service sufficient revenue was produced for the maintenance of the company and for proper dividends. The Elgin company based its claim for a rate of 50 cents per month, to apply to the 57 rural subscribers of the Oakdale company, clearly upon the order referred to above and not upon its financial needs. Officers of the Oakdale company stated in evidence that they were at all times ready and willing to perform all of the switching service for the 57 rural subscribers in question through their exchange at Oakdale; that they would run an additional wire from their exchange to this neighborhood in order to insure quick and dependable service, if found necessary. There now exists a mutual agreement by which free service is maintained between subscribers of the two companies and between the exchanges at Elgin and Oakdale. This free service extends to the 57 subscribers the privilege of going onto the switchboard of the Elgin company through the Oakdale exchange. The arrangement would perhaps slow down the connections somewhat of the 57 subscribers reaching the Elgin exchange, but would not prevent them from enjoying this added connection.

It seems clear to the Commission that on account of the switching work required for the 57 Oakdale company subscribers, done partly by the Elgin company and partly by the Oakdale company, the arrangement now existing between the companies is not placing any undue hardship or unjust charge upon other subscribers of either company. As the applicant renders only a part of the switching service required by the 57 subscribers, it cannot expect to receive the full rate of 50 cents charged other switched subscribers; it is a question of what part of the regular charge of 50 cents should be assessed. The Oakdale company is able, by careful management, to furnish its subscribers service at a rate much below the average rate charged by companies of like size. Its officers testified

that they are able and willing to perform all of the switching service for their subscribers at their Oakdale exchange. The Commission will not order an additional charge for the direct Elgin connection when the way is open for this connection through their own exchange. We are, however, agreeable to the present mutual arrangement whereby the Elgin company may switch the 57 subscribers of the Oakdale company when they desire connection with subscribers of the Elgin company in the village of Elgin. If, however, the two companies in interest are not able by mutual agreement to continue the direct connection which has long been given the 57 subscribers of the Oakdale company with the Elgin exchange, the said subscribers may make application to this Commission for a rate justifying the continuance of a direct connection with the Elgin exchange.

ORDER.

It is, therefore, ordered by the Nebraska State Railway Commission, That the application of the Antelope County Mutual Telephone Company for the privilege of charging a switching rate of 50 cents per month to apply to 57 subscribers of the Oakdale Telephone Company, be, and the same is hereby, denied.

Made and entered at Lincoln, Nebraska, this twenty-seventh day of March, 1922.

In re APPLICATION OF THE FARMERS' MUTUAL TELEPHONE
COMPANY OF AVOCA FOR AUTHORITY TO INCREASE RATES.

Application No. 4741.

Decided March 28, 1922.

Increase in Rates Authorized.

FINDINGS.

Applicant company herein has filed with this Commission application requesting authority to make certain slight

increases in its schedule of rates. Outstanding capital stock of applicant company is entirely in the hands of a group of farmers residing in the vicinity of Avoca. The company owns no properties other than its exchange building, switchboard and central office equipment and an aerial line, 10 poles in length, extending down the main street of the village. Subscribers receive only switching service and are obliged to furnish their own instrument, batteries for same, and construct and maintain the necessary aerial properties to connect with applicant company's line.

The company is now operating under a rate schedule which was authorized by this Commission under date of March 31, 1921,* which is as follows:

	<i>Per Month</i>	
	<i>Gross</i>	<i>Net</i>
Residence service to users located within the limits of the village of Avoca.....	\$1 00	\$0 75
Business service	1 50	1 25
Service to users located outside of city limits.....	90	65

The company now contends that its experience under this schedule of rates for the fiscal year has been an unhappy one from a financial standpoint. It supplements its application with financial report which discloses conditions as follows:

Total operating revenues, inclusive of toll.....	\$2,152 03
Total operating expenses	2,443 20
Other deductions from income, taxes accrued.....	71 97
Interest accrued	40 08
<hr/>	
DEFICIT FOR THE YEAR.....	\$403 22

In its liability statement the company calls particular attention to an item, notes payable, in amount of \$500. It is stated that this money was borrowed from time to time to meet deficits incurred because of lack of sufficient revenues accruing from rates. Such being the case, the company feels that rates should provide the moneys whereby

* Noted in Commission Leaflet No. 115, p. 1834.

these notes may be taken up. The request for the slightly increased rate is made at this time having in mind the possibility of payment, in part at least, of these notes.

An estimate of monthly and annual revenues as of the rate schedule requested appears as follows:

	<i>Monthly</i>	<i>Annual</i>
Farm stockholder subscribers, 179 at 90 cents per month	\$161 10	\$1,933 20
Town residence subscribers, 44 at 90 cents per month	39 60	475 20
Business subscribers, 17 at \$1.25 per month.....	21 25	255 00
TOTAL MONTHLY REVENUE.....	\$221 95	\$2,663 40

The Commission observes that total annual revenue under the rate requested is but slightly in advance of the company's actual expenditures for the fiscal year just ended. This amount does not include a slight annual revenue from toll. The company alleges, however, that the rate increase would probably be attendant with certain slight loss of subscribers, so that the above figure will probably not represent exact revenues.

It is noted that the rate requested provides for a slight increase over present rates to town residence subscribers. No increase was requested for town business subscribers. The principal increase in rates will affect the farm subscriber who, in each instance, is also a stockholder of the company. The company has never declared dividends, the only return to the stockholder being realized by way of slightly lesser rate to the stockholder than to the non-stockholder subscriber. The rate schedule requested eliminates this spread and places the stockholder subscriber on the same basis as the non-stockholder subscriber.

The Commission feels that the increase as requested in this instance should be authorized. The applicant company is a sort of family affair in the community. It was organized solely for the purpose of providing switching facilities for a group of farm lines which radiated out of Avoca and which had no common connection. The deficit which the

company is now facing is undoubtedly due to inadequate rates in the past. The Commission has no reason to think that the company has not been reasonably and economically managed. In further view of the fact that the principal increase is realized by those subscribers who are stockholders of the company, the Commission will authorize the increase without the necessity of a formal hearing upon the application.

The financial condition of the company will be closely followed by the Commission through its monthly and annual reports. As soon as financial conditions justify, the rate schedule will be reduced to a lower basis.

ORDER.

It is, therefore, ordered by the Nebraska State Railway Commission, That the Farmers' Mutual Telephone Company of Avoca be, and the same is hereby, authorized and directed, effective April 1, 1922, to publish and collect the following schedule of rates:

	<i>Per Month</i>	
	<i>Net</i>	<i>Gross</i>
Farm and residence service.....	\$0 90	\$1 15
Business service	1 25	1 50

NOTE: The present effective rule of the company as to the collection of the gross and net rate shall continue to apply.

Made and entered at Lincoln, Nebraska, this twenty-eighth day of March, 1922.

In re APPLICATION OF THE CHAPPELL TELEPHONE COMPANY
REQUESTING AUTHORITY TO INCREASE ITS SCHEDULE OF
RATES.

Application No. 4498.

Decided March 29, 1922.

**Tentative Value Determined — Temporary Increased Rates Continued
in Effect Indefinitely.**

SECOND SUPPLEMENTAL ORDER.

History of the Case.

The Commission's original order* herein, effective April 1, 1921, authorized applicant company to publish and collect a certain increased rate schedule, the same terminating October 1, 1921, unless otherwise ordered by the Commission. This six-months' period operated as a trial period during which time the Commission followed very closely the results of the rate increase and the financial experience of the company. At the end of that period a supplemental order† was issued continuing in effect for a further six-months' period the rate schedule originally authorized. Accordingly, under these orders of the Commission applicant company's rate schedule expires as of April 1, next. In October, 1921, the engineering department of the Commission made a physical valuation of the properties involved which is now available in reaching definite conclusions as to the equity of the rates authorized.

Applicant company has filed application with the Commission requesting that the schedule originally authorized herein be continued for an indefinite period of time. Substantiating its application the company refers to its annual report and monthly reports, filed in accordance with the accounting system as adopted by the Commission, which reflect accurately the past financial experiences of the company, and are available as a basis for estimating the company's financial needs of the future.

* See Commission Leaflet No. 115, p. 1829.

† See Commission Leaflet No. 120, p. 1355.

Service Conditions.

The original order* of the Commission discusses in some detail the reconstruction program contemplated by the company. Since the issuance of this order a considerable portion of this program has been completed. The exchange has been entirely rebuilt in town and a large amount of cable has been installed. With but two exceptions, the service furnished is entirely metallic. The company is supplying twenty-four-hour service the year round. The Commission has at hand no complaints from any subscribers of the company as to service conditions and the conclusion is reached that the service is of a very high standard, as it should be with the high type of construction.

Financial History.

As stated, the company calls attention to its annual report for 1921 and monthly reports which are on file with the Commission as proof sufficient that the schedule which it is now collecting, and which it most urgently requests continued in effect, is not producing more revenue than is necessary for proper maintenance of the exchange, and other legitimate charges.

The Commission notes that monthly and annual revenues as of present rates appear as follows:

	<i>Monthly</i>	<i>Annual</i>
Individual business, 56 at \$3.00.....	\$168 00	\$2,016 00
Individual residence, 102 at \$1.75.....	178 50	2,142 00
Switched, 156 at 60 cents.....	93 60	1,123 20
TOTALS	\$440 10	\$5,281 20
Toll receipts, annual, estimated as of company's experience for 1921		750 00
TOTAL GROSS ANNUAL RECEIPTS.....		\$6,031 20

The total annual gross receipts are slightly less than the Commission's estimate of total receipts as made in its original order.* This is accounted for by slightly reduced

* See Commission Leaflet No. 115, p. 1829.

toll receipts, and by a loss of a few subscribers during the period, this probably being due to the general economic conditions.

Applicant company calls the attention of the Commission to the fact that during the coming fiscal year the revenues will be further reduced because of the Commission's order affecting service connection charges in Resolution No. 50,* entered under date of October 26, 1921. This order reduces service connection charges for installation of business telephones from \$3.50 to \$2.00, and for residence installation from \$3.50 to \$1.50 in instances where it is necessary to install instruments, drop and wiring. Further reduction in the installation charge is made where the drop and wiring are in place. The change of name charge previously collected by the company, is entirely eliminated. It is contended that this reduction in charges will result in loss of gross revenue to the company in an amount of not less than \$100 per year.

With reference to company expenditures the Commission notes that its estimate was slightly below the actual experience of the company for the period. The company's annual report for the year 1921 discloses total telephone operating revenue in amount of \$5,934.92; total operating expenses, including taxes accrued, \$180.25, and interest accrued, \$824.04, amount to \$5,935.16, making a net deficit for the year of 24 cents. Nor does this include any return upon the investment other than as reflected by interest paid upon outstanding notes, such notes being in amount of \$10,300. This would increase proportionately the net deficit for the year.

Valuation.

In the Commission's previous orders† herein the advisability of a valuation of the exchange properties was suggested. Subsequent to the last supplemental order‡ such

* See Commission Leaflet No. 121, p. 94.

† See Commission Leaflets No. 115, p. 1829, and No. 120, p. 1355.

‡ See Commission Leaflet No. 120, p. 1355.

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valuation has been made by the engineering department. The summary statement therein discloses the following:

Original construction cost.....	\$16,125 88
Depreciated original cost	14,084 71
Condition per cent. of the properties.....	87

Previous orders* of the Commission herein authorized a return upon the investment of \$11,500, it being understood that this was not a finding as to fair value of the properties but rather, represented approximately the original investment. It develops, however, that the present rate schedule, as above noted, results in a deficit of 24 cents for the year although a return was not paid upon the equities in the property over and above amounts represented by notes payable. In view of the fact that present rates are not producing sufficient revenue to provide a return upon \$11,500, it is apparent that it is perhaps unnecessary, for the purposes of this case, to determine definitely a valuation of the properties which would be in advance of this amount.

The Commission will, however, authorize an amount of \$15,000 upon which a return may be paid if financial conditions of the company justify. The company's attention is directed to the Nebraska Constitution, Article 10, Section 5, concerning public service corporations, which provides in part as follows:

"No dividend shall be declared or distributed except out of net earnings after paying all operating expenses, including a depreciation reserve sufficient to keep the investment intact."

This, of course, operates as a hindrance to the company's sacrificing proper maintenance of its properties that return upon the investment may be paid.

It is to be understood that the figure of \$15,000 is not a definite finding by the Commission as to the fair value of the properties. If it becomes necessary to make a definite finding as to value upon request of the company, the mat-

* See Commission Leaflets No. 115, p. 1829, and No. 120, p. 1355.

ter will be given additional attention. This figure is taken as representing the amount which the company alleges has actually been invested in its properties. It is felt that it is a conservative figure and without doubt is well protected by existing properties.

Conclusion.

It seems quite apparent that this company's rate schedule cannot be legally disturbed at this time. The company's development and growth, and its financial condition, have been closely followed by the Commission. The rehabilitation of the properties took place at a time of high material and labor costs. Chappell, however, is located in the midst of a fertile and productive territory in Nebraska. Its citizens demanded telephone service of the best, which they are receiving, and they have evidenced a willingness to pay such a rate as will continue in effect such service. The schedule will be continued in effect for a further indefinite period of time..

It is, therefore, ordered by the Nebraska State Railway Commission, That the Chappell Telephone Company be, and the same is hereby, authorized and directed to continue in effect until further order of the Commission the schedule of rates as set forth in the original order herein.*

It is further ordered, That, subject to constitutional restrictions, applicant company shall not pay dividends in excess of 8 per cent. upon an amount of \$15,000.

Made and entered at Lincoln, Nebraska, this twenty-ninth day of March, 1922.

* See Commission Leaflet No. 115, p. 1829.

In re INVESTIGATION OF THE FINANCES OF THE BURCHARD
TELEPHONE COMPANY.

Resolution No. 49.

Decided April 10, 1922.

**Value Determined — Reserve for Depreciation Found Insufficient and
Ordered Increased — Dividend Limited to 7 Per Cent on
Fair Value.**

FINDINGS.

This matter arises on resolution adopted by the Commission, on its own motion, because from reports of defendant company to the Commission it appears that excessive dividends are being paid to stockholders from year to year, and also that an unusually small amount of money was being spent annually upon maintenance and replacements. Upon this paper showing it appeared probable that the company was maintaining a high dividend rate at the expense of the properties and ultimately at the expense of its service.

The hearing held at the offices of the Commission developed what is perhaps the most remarkable record of any telephone company in the State. Defendant is an independent company with 46 stockholders, largely local, with 325 subscribers, almost all receiving grounded service and with a rate of \$1.25 per month for all classes of service, business, residence and farm. These rates have been in existence since the origin of the company in 1905 and have not been altered during the high war-time period of maintenance and operation.

The company's central office is located in Burchard, in the center of territory which it exclusively occupies. It is a rich agricultural section, closely settled. The territory occupied is so compact that no telephone line appears on the map to be more than 8 miles in length. After its incorporation the company sold \$5,300 of stock and borrowed a like amount. There was not more than a normal amount of donated labor in construction as compared with similar

independent companies. In course of time the company paid off its note obligations from earnings, and at the time of the inventory by the Commission's engineers, two years ago, it had physical properties the net worth of which exceeded the original investment. Its properties cost, according to the engineers' estimate with normal allowance for general expenditures, whether paid or not, in excess of \$20,000. The present worth of the properties based on cost was found by the engineers to be \$11,800 in round figures. At the same time the company had not invaded its original investment; it had been able to pay all operating expenses and fixed charges and had been able to pay 18 per cent. on the outstanding stock per annum.

No demand has apparently existed in the community for better than grounded telephone service. At the time of the hearing the officers of the company invited the Commission to find dissatisfaction as to service among its subscribers, declaring there was none.

The record indicated that the remarkable showing made by this company has been due chiefly to these conditions; its officers have worked for nominal compensation; it occupies an unusually congested territory with the maximum number of subscribers and the minimum amount of plant when compared with like companies in Nebraska; because of local conditions it has been able to "farm out" the maintenance and operating labor costs at a price experienced in few other places in the State.

Its rates began somewhat higher than rates of some other companies similarly organized. On the whole, the level of the rates throughout the period of its history cannot be criticised when compared with the necessities of the average company in Nebraska.

With the record before us we find that the fair value of the properties of this company is \$12,000, which fair value excludes all intangible values and considerations of any accretions due to higher price levels than were experienced by the company. No claim is made by the company for more than present worth of the company based on cost.

In 1920 the company's operating revenues were \$5,781. It spent \$2,031 on maintenance and replacements and drew on its depreciation reserve in the sum of \$629 because of insufficient allowance for that class of expenditures against current revenues. It paid 15 per cent. dividend on the outstanding stock and paid to surplus \$1,994. When proper allowance has been made for maintenance and replacements, there would still be left in surplus earned more than \$1,000. In 1921 the telephone operating revenues were \$5,004; current maintenance and replacements amounted to \$1,590, which exceeded the set-up for these expenditures by \$251, with nothing remaining for accrued depreciation. The company paid 10 per cent. dividends on the outstanding stock, and when proper consideration has been given to a proper accrual for depreciation reserve there would be remaining a profit and loss or surplus earned of more than \$700. If dividends had been paid on the fair value of the property in the past two years, and indeed for several years last past, the returns paid would not be materially beyond the reasonable. The record does not show that the company has added to its properties in extensions and betterments in any degree in the past two years.

The record here set forth of this small independent company is one of which it can be proud. During the history of the company its original stockholders have been unusually well compensated. At the same time the patrons of the company have enjoyed at least reasonable rates when compared with an equal period of time in the general surrounding territory. To call upon the company to reduce its rates is to frown upon the high business sagacity exercised by its officers in the past decade and a half. At the same time we do not feel that the company is properly protected for the future. Its switchboard is old, having outlived the normal life of switchboards. Our engineer found this board almost worn out two years ago. The annual reports do not indicate its replacement yet. If this is so, the company must run no further risk, but must

replace the board this year. We will make this a part of the order. Its lines show indication of necessity for rapid reconstruction in the future. There were on January 1 heavy accounts receivable outstanding, but no cash on hand.

The annual set-up on a monthly basis for maintenance and depreciation was arrived at by the Commission's accountants from the property showing of the company, and proves to be insufficient. This has been the case for the last two years and possibly longer. The company will, therefore, transfer from its surplus account \$1,500 to its depreciation reserve account, this being a bookkeeping matter only to more properly reflect the existing condition of the property. It will be required also to limit its dividends to 7 per cent. on a rate base of \$12,000, plus a like amount on any future sales of stock or borrowings for construction or for unusual replacements. It will also, as rapidly as possible, secure from its revenues and carry in liquid securities an amount of not less than \$1,000 as an insurance of its ability to make extraordinary replacements. When this fund is drawn upon for that purpose it shall again be replenished at the earliest practicable date. The company will also set-up on a monthly basis for maintenance, replacements and reserve for unrealized depreciation, \$2,000 per annum until further order of this Commission.

ORDER.

It is, therefore, ordered by the Nebraska State Railway Commission, That the Burchard Telephone Company be, and the same is hereby, ordered and directed to pass from its surplus account to its depreciation reserve \$1,500.

It is further ordered, That the company set aside for the year 1922 until further order of the Commission, \$2,000 per annum on a prorated monthly basis for maintenance and replacements and reserve for accrued depreciation, charges against which fund shall be in accordance with rules for accounting provided by the Commission.

It is further ordered, That the company shall take steps as early as practicable this year to replace its switchboard, and to that end shall report to the Commission as of date June 1, 1922, as to what has been done.

Made and entered at Lincoln, Nebraska, this tenth day of April, 1922.

In re APPLICATION OF THE PLATTE COUNTY INDEPENDENT
TELEPHONE COMPANY FOR AUTHORITY TO INCREASE RATES.

Application No. 4575.

Decided April 10, 1922.

Method of Determining Fair Value Discussed — Fair Value Determined — Rate of Return Fixed at 7.5 Per cent. on Fair Value — Fund for Maintenance, Replacement and Reserve for Depreciation Fixed at 10 Per Cent. of Original Cost — Where Installation of Drops on Subscribers' Premises Requires More Than Two Poles Suscribers Required to Pay for Additional Poles — Increase in Bates Authorized.

Application was filed by the Platte County Independent Telephone Company of Columbus for authority to increase its rates.

The company filed statements in which it estimated the original cost of its property to be \$135,962, and the original cost less depreciation, to be \$99,548. The Commission's engineer estimated the original cost to be \$105,919, and the cost less depreciation to be \$70,854.

The Commission found the "bare bones" historical cost of the property to be \$115,622, and added thereto 15 per cent. for organization expenses, legal expenses, engineering and superintendence during construction, contingencies and losses, and interest during construction, and found the original cost of the property to be \$132,965, and the original cost less depreciation, to be \$90,981.

The Commission said: "This Commission is fully persuaded that the fairest method of ascertaining the valuation of public utility properties is the investment cost without regard to the source of the funds based on historical cost new methods, less the investment of those reserves created

from revenues for the protection of property already in existence and invested by the company in additions and betterments in order that the funds may not be idle. * * * However, it is very apparent that these conclusions are not borne out by the weight of decisions of the courts and that if this Commission gives the consideration to those decisions which it is in honor bound to give it cannot stop with a conclusion on value based upon investment * * *.

"The theory of fair value, based on reproduction prices at the given moment, is impracticable because unstable. In the instance of this company, prices were fixed on 1920 prices of labor and materials as experienced by the company and estimates where experience was not had. * * * It would appear that in order to be fair to the public the inventory must be again priced if reproduction new at this time is to be the sole measure of the value of the physical units, and possibly six months from now it would be again an unfair value * * *.

"In the light of these decisions (court decisions quoted) it seems perfectly plain that the fair value arrived at in rate cases of public utilities at this time must include careful and proper consideration of price levels now existing. These levels constitute an important element. In their consideration we must bear in mind the trend of prices in the past eighteen months. Such consideration can lead to no other conclusion than that normal prices, using the word 'normal' as pre-war level, will not again be fully reached for a considerable period, if ever. There is enough stability to the fact that prices are not normal to warrant the fixing of fair value with ample consideration of present levels. In dealing with this perplexing problem we cannot overlook the question of amount of property now existing in this case which was built under war-time price conditions, and which was given full consideration in the figures heretofore arrived at by us in 'cost new' and 'cost depreciated.'"

The Commission found that, considering all elements, the fair value of applicant's property as of June 30, 1921, was \$117,000; that applicant's total revenues for the year 1921, based on ten months' experience, would amount to \$35,670; that applicant's requirements for a twelve-month period succeeding the effective date of this order would be \$39,241, which includes a fund of \$13,300 for maintenance, replacements and reserve for depreciation, based on 10 per cent. of the estimated original cost, and a return of 7.5 per cent. on the fair value as found; that the rates as approved in this order would produce revenues of approximately \$40,250, which amount would probably be increased by the growth of the company, and which rates would be slightly higher than those approved in a former order.

Held: That applicant should be authorized to collect, effective May 1, 1922, an emergency existing, schedules of net rates at its exchanges at

Columbus, Richland, Monroe, Platte Center and Duncan, as set out in the order, the gross rates being 5 per cent. higher than the net rates, said 5 per cent. to be remitted for prompt payment;

That applicant shall set up as a fund for maintenance, replacements and reserve for depreciation \$13,300 per annum, plus an amount at an equal rate on future additions and betterments, such set-up to be on a prorated monthly basis;

That applicant shall pay out in dividends not more than 7.5 per cent. per annum on a fair value of \$117,000, plus a like rate on all additions and betterments made after January 1, 1921, which additions and betterments shall have been made from the proceeds of sales of stock or from money borrowed on notes and on no other additions and betterments;

That no additional charge for disconnects for non-payment of bills shall be made other than those involved in the general order on installation charges, until further order of the Commission, provided that on the installation of drops hereafter installed on subscribers' premises, involving the use of more than two poles, the subscriber may be required to pay for such additional poles;

That the rates herein authorized shall remain in effect for one year unless modified by subsequent order of the Commission.

FINDINGS.

This matter, involving the level of rates of applicant company and the valuation of its property, was presented *de novo*, although in the course of the hearing it was linked with the evidence and findings in Application No. 2544,* decided March 8, 1916, and Application No. 4101,† decided February 26, 1920.

This company was organized in 1902, beginning business in 1903 as an independent telephone company, almost mutual in its operations. In 1915 the company was alleged to have 1,580 subscribers. Its competitor in the city of Columbus was the Nebraska Telephone Company, with 310 subscribers, a large number of whom were duplicates of the subscribers of applicant. In the fall of 1915 negotiations were concluded for the purchase by applicant of the exchange properties of the Nebraska Telephone Company

* See Commission Leaflet No. 53, p. 1403.

† See Commission Leaflet No. 102, p. 191.

in and near Columbus for the sum of \$15,000. At the end of 1916 the company alleged itself to have 1,774 subscribers' stations. It is not certain that these figures are correct for many errors have been found in the reports of applicant to the Commission in the years past, some of which have been regarding the number of subscribers' stations.

In the winter of 1915-1916 hearing was held by the Commission on application of this same company for authority to issue securities covering the price agreed upon for the Nebraska Telephone Company's exchange properties; also to secure funds with which to complete the consolidation of the two plants and to do a considerable amount of placing city main leads underground, in accordance with an ordinance passed by the city of Columbus. The Commission's engineer checked the properties of the Nebraska Telephone Company and reported verbally to the Commission that the price agreed upon was fair and reasonable. The securities were authorized and the company was permitted to increase its rates for business service from \$2.00 to \$2.50 and \$3.00, and to a lesser degree on residence and farm service. Certain provisions in that order will be discussed later.

In the fall of 1919 application was made for further rate advances of 25 cents per month for each class of service offered by the company and for certain other relief. The matter was handled without valuation as an emergency application. Rate advances of 25 cents per month were granted* on business service, from 15 to 25 cents per month on residence service and 15 cents per month on farm line service. It was provided that these rates were temporary, to last not exceeding six months, and that in the meantime an inventory and valuation would be made of the properties and further order would be entered in accordance with the facts there developed. It was agreed by applicant during the hearing that until the valuation was made and permanent rates provided dividends should be

* See Commission Leaflet No. 102, p. 191.

limited to 8 per cent. on outstanding securities. The order* also provided that the company should set aside \$12,500 per annum, out of which all proper charges for maintenance, replacements and reserve for depreciation should be paid. The effective date of the order* was March 1, 1920.

Applicant was dissatisfied with the provisions of the order and refused to put the rates and the other provisions into effect. No appeal was taken. In July the Commission brought an action in the District Court of Platte County for a writ of mandatory injunction to compel compliance with the provisions of the order. Preliminary motions and demurrers filed by applicant prevented early consideration of the court case. In May, 1921, this application now under consideration was filed. The Commission insisted that the case in court, in which jurisdiction was challenged, be disposed of prior to consideration of the application. On November 22, 1921, mandatory injunction was issued by the District Court by consent of defendant. It was verbally agreed between the company and the Commission that, with the litigation disposed of, prompt consideration would be given to the pending application and that to avoid whatever embarrassment would exist in the putting into effect of a set of rates temporarily and their re-adjustment within a short time the Commission would, upon action by the court favorable to the contention of the Commission, immediately suspend the provisions of the order in Application No. 4101.*

In conformity with that understanding hearing was held at Columbus on December 7-10, inclusive. Because of discrepancies regarding the quantities of property inventoried by the company's employees and officers and by the Commission's engineer it was directed at the close of the hearing that a conference should be held between the company's officials, on the one hand, and the Commission's telephone engineer and telephone accountant, on the other hand, for the purpose, if possible, of agreeing on quantities of prop-

* See Commission Leaflet No. 102, p. 191.

erty. In part this conference was successful and in part no agreements were reached. Delays that are regretted resulted from these intermediate matters.

Applicant presented an inventory of all property and valuations representing its conclusions on three bases, viz.: original cost undepreciated, reproduction cost as of January 1, 1921, and reproduction cost depreciated in accordance with the judgment of the appraisers after inspection of the property. It presented also a study of book cost from 1916 to 1920, inclusive, added to a figure used by the company of original cost to January 1, 1916. Certain accounting studies were made also by the company's representatives, for the most part presenting theoretical conclusions resulting from the application of certain hypotheses running through the tabulations. It also filed statements of receipts and expenditures for ten months of 1921, as kept under the accounting system provided and ordered by this Commission.

For its own information and in the interest of substantial justice to both company and public the Commission directed an inventory of the property to be made by its engineer and presentation of a valuation based on actual and estimated cost of construction. In reaching his conclusions the engineer of the Commission took from invoices of the company a large amount of data relative to experienced cost of materials and where such costs could not be secured the unit cost of materials was taken from data in the possession of the Commission, secured and compiled from a large number of inventories heretofore made. Labor units applied were, in the absence of any segregated data in the possession of applicant, based upon estimates by the engineer of quantities and prices of labor which might reasonably have been experienced. Both the company and the Commission gave careful consideration to the overhead expenses which included organization, legal expense of organization, superintendence and engineering of construction, contingencies, omissions, and interest and taxes during the construction period. In both valuations

no effort was made to ascertain the actual experienced overheads. The Commission used the results arrived at by it from various studies of other normal companies and the company used the Commission's data but applied them to a different "bare bones" cost figure.

The Commission's engineer did not attempt to present any testimony relative to intangible values. The company presented what testimony was put into evidence on this subject.

The city of Columbus, through its attorney, appeared as respondent, as did certain subscribers. They offered no testimony, but did carefully cross-examine the witnesses for the company. Respondents offered in evidence the testimony, the pleadings and the findings under Application No. 4101,* which were received and marked Exhibit No. 3. Applicant offered as Exhibits Nos. 4 and 5 the evidence and the findings on Application No. 2544.†

Excluding overheads or general expenses estimated, the conclusions presented as to "bare bones" figures of valuation may be summarized as follows:

Company's cost	\$135,962
Commission's engineer's cost	105,919
Company's depreciated cost (not set forth in figures).....	99,548
Commission's engineer's depreciated cost.....	70,854
Company's reproduction cost new, December, 1920.....	208,740
Company's reproduction cost, depreciated.....	151,087

COST OF THE PROPERTY.

We will first deal with the figures presented relative to cost, or, possibly, as the matter was presented by both applicant and the Commission, a historical reproduction cost. The books of the company had not been kept in such a manner as to present any conclusive evidence as to cost. The Commission's engineer and the company both, according to testimony, used what information could be gleaned from invoices as guide marks and proceeded to

* See Commission Leaflet No. 102, p. 191.

† See Commission Leaflet No. 53, p. 1403.

place against the inventories, figures which, in their judgment, represented what the company might normally have experienced in costs of construction. The company presented no conclusions on depreciation of its so-called cost. It did depreciate values compiled another way by applying the judgment arrived at by inspection as to the deterioration existing in the property. For comparative purposes we are using this judgment as to condition of the physical property and applying it on a percentage basis to the so-called cost figures. In the tabulation below this data is set forth, rearranged only insofar as is required to put the same property under the same headings in both Commission and company valuation, no change being made regarding cost units, quantities or condition per cent. as set forth in these documents. In this finding we will, for convenience, use the expression "cost" to mean "historical reproduction cost" or "estimated original cost," whichever is the more correct designation of the method heretofore described.

Property	Company Cost	Company Cost Depreciated	Commission Cost	Commission Cost Depreciated
Real estate and buildings.....	\$3,750	\$3,300	\$350	\$245
Switchboard equipment.....	9,193	6,341	11,364	7,330
City subscribers' stations.....	16,525	11,412	25,712	17,225
Rural subscribers' stations.....	10,150	7,714		
City pole lines.....	13,552	10,300	6,252	4,049
City aerial wire.....	2,533	1,722	2,419	1,324
City aerial cable.....	11,747	10,690	10,787	6,654
Underground conduit and cable.....	16,879	12,828	12,462	11,704
Booths and fixtures.....	364	255	575	402
Rural poles.....	29,680	19,589	21,021	12,016
Rural wire.....	15,039	10,528	9,297	5,578
Tools and vehicles.....	1,803	1,332	2,027	1,187
Stores and supplies.....	3,497	2,587	2,798	2,798
Furniture and fixtures.....	1,250	950	845	632
TOTALS.....	\$135,962	\$99,548	\$105,919	*\$70,854

*So appears in original.

DISCUSSION OF FIGURES.

In General. With very much the same method being used by both company and Commission in arriving at the above figures, the disagreements have been so wide as to call

for a very burdensome analysis of the valuations in an effort to ascertain the causes for the disagreements. The president of applicant company was the chief witness in presenting the valuation relied upon by defendant. He was under considerable handicap. Much of the work had been done by his wire chief, particularly in the development of price units. Since the making of the inventory this man had ceased working for the company and for reasons of its own the company did not desire to call him as a witness. Hence, the efforts of the president to explain many of the points under dispute lacked much of being convincing or satisfying.

Several months prior to the hearing the company served notice on the Commission that it proposed to take the depositions of two of its employees who had been active in preparing the inventory and valuation and who were likely not to be in its employ when the hearing took place. The Commission did not have a representative present when the depositions were taken. These depositions were offered in evidence at the time of the hearing and were objected to by respondents on the ground that both of the men whose depositions were taken were within call, the one an employee, the other an ex-employee. The fact was not disputed. Ruling on the objection was reserved until it could be ascertained by examining the depositions whether there was material therein which required cross-examination to bring out the necessary facts. After such examination the Commission is compelled to sustain the objection and to refuse to admit the depositions.

The company hired a general manager and auditor subsequent to the taking of the inventory. He was presented as a witness to testify as an expert on the reasonableness of the unit values used, with none of which he had had a part in preparation. We can give little or no consideration to his testimony on this subject. He allowed himself to make such grievous errors in some respects as to cast considerable cloud upon his judgment as an expert. For example, in response to questions of counsel he testified

that the unit labor price for setting poles in the city, of \$5.44 per pole on a pre-war basis and \$8.88 per pole on a 1920 basis, was reasonable as to the latter and too low as to the former. As a matter of fact the figures about which he was asked were not the labor costs used by the company in setting poles, but the unit labor cost of installing instruments. The company actually used in its cost column \$2.35 for labor of setting poles and \$3.73 as a reproduction cost in 1920. Again, this witness testified the reasonable life of a 25-foot, 6-inch pole at time of first setting was forty to fifty years and on re-setting twenty years. This is very much out of line with all engineering experience of which we have knowledge. The witness testified also as to the cost of the Columbus switchboard and substantiated the testimony of a previous witness. On cross-examination it developed that he had merely seen figures written down by the witness who had made the investigation and there was no independent judgment. On his testimony relative to the receipts and expenditures and the company's present financial condition the testimony of the auditor was of real value.

Real Estate and Buildings. The Commission's engineer left out of his valuation a little old brick building and lot purchased by the company five years ago as the future home of its exchange equipment. The company is now renting quarters. The engineer omitted the item because not now used and useful by the company. It is being rented at \$40.00 per month and so far as our search goes of reports filed by the company that rental has not been included in the revenues of the company. The president of the company testified (Transcript 147) that the rental had been applied on the purchase price. We think this property may properly be included. To rule otherwise is to put a penalty upon the business judgment of a utility management in looking ahead in its development program and making economical arrangements. The rental from the building, however, will be figured in the revenues of the company and hereafter must be included by it as revenues.

Switchboards.— In considering the value of this group of property we have transferred in the company's inventory the wool-ends from cable to switchboard for comparative purposes. We have adjusted the Commission's engineer's figures by leaving out the furniture carried by the company under another heading. We find the conclusions arrived at by the Commission's engineer as to value of switchboards on the basis of historical reproduction cost considerably higher than that of the company. We are convinced from the testimony on the subject that the figures more nearly represent what the company might be expected to have paid at the time of installation for this property and we will use the higher figures.

Subscribers' Sets. The inventory of the company showed 155 more subscribers' sets in service than was used by the Commission's engineer. The engineer did not count the instruments in his appraisal but took the figure found by the Commission's accountant by an examination of the books. The testimony showed no proper reason for this discrepancy. The company's auditor and the Commission's telephone accountant have since checked over the records and are agreed and on the strength of that examination and a signed statement by the two accountants, we take from the company's valuation 152 subscribers' sets at the unit price used by it and add the necessary number to the Commission's engineer's total at the price unit used by him. We have removed booth telephones and put them in under "booths and fixtures" heading to eliminate duplication.

The company has fallen here into what appears to us to have been a palpable error. By inspection it put upon city instruments a condition per cent. of $57\frac{1}{2}$. It has figured the labor of installing the instrument at 80 per cent. condition. On rural sets the instrument is placed at 67 per cent. condition and the labor in installing at 75 per cent. The labor in installing an instrument and other material accompanying is wrapped up with the material. It cannot be separated from the material. When the material wears

out the labor is gone. It has always been the practice of the Commission, and of other regulating bodies so far as we know, to depreciate the labor of installing a unit of property at the same rate that the material itself is depreciated. In fact, the company has used that method in the main in its inventory. Inasmuch as by inspection the company's appraiser saw the material and passed judgment on it, we are constrained to change the depreciation on the labor to correspond to the depreciation on the material. This requires a considerable reduction in present value of labor in installing instruments in the city and raises the present value of the same kind of labor on rural subscribers' sets. This adjustment leaves the judgment of the company's appraisers and the Commission's appraiser on the matter of condition of subscribers' instruments approximately the same.

The readjustments here explained leave the cost depreciated as found by the company somewhat lower than that found by the Commission's appraiser. We take the judgment of the Commission's engineer in this matter and the higher figure, although we recognize that the company erred in using the same cost for installing hotel telephones that it did for individual telephones inasmuch as the hotels were already wired by their owners, that the labor cost figured by the company as experienced is almost 50 per cent. higher than was testified by it as the labor cost of installing instruments in 1915. (Exhibit No. 4.) We do this because the 1915 judgment was considerably increased by the installation made by the company during the war-time period and included in the historical cost.

City Pole Lines. The figures used by the company here are more than twice as high as those used by the Commission's engineer. Errors in the inventory of the company are responsible. The company included the labor cost of installing the subscribers' instruments in the cost of the poles, although included in the cost of the instruments installed, thereby duplicating the figure of \$7,317, before depreciation. We remove the duplication. The

company has also fallen into the same error regarding the per cent. condition of the labor of setting poles as compared with the per cent. condition of the poles themselves. On the poles it has used a percentage of 58 and on the labor of setting the same poles a condition per cent. of 93. For the reasons heretofore stated, we readjust the item of depreciated labor. The Commission's engineer found the poles in 65 per cent. condition. As adjusted the company's per cent. condition is 58. The net result of the adjustments leaves the depreciated cost as found by the company \$300 lower than that found by the Commission's engineer. We accept the steadier results of the Commission's engineer and take the higher figure.

Rural Poles. On this section of property the company's undepreciated figure is almost \$9,000 higher than that of the Commission's engineer. Part of this is due to the error of the company repeated here that was made relative to city pole lines; that is, it has included the labor and material cost of installing rural telephones with the pole costs in the sum of \$2,960 and has included it also with the value of the subscribers' stations installed, listed in another part of the inventory. It has also considered the condition per cent. of labor of city poles as 77 and the poles themselves as 64 per cent. We correct the errors as heretofore described for similar errors on other sections.

There is also a discrepancy between the Commission's appraiser and the company's appraisers on the quantity of poles, the company listing 7,670 poles and the Commission's engineer 7,315 poles. Both testified to having counted the poles. In testimony the company alleged that the Commission's engineer failed to find rural lines near Creston. The engineer testified that he had listed all property shown to him by the company as owned by it. At the time of the hearing it was directed that an effort be made to iron out the discrepancy. This was not accomplished. The company did not show the location of any lines not contained on the Commission's engineer's map. The engineer found some small duplications between city pole lines and country

pole lines in the company's inventory. Analysis of the conflicting inventories has, on the whole, shown that of the Commission's engineer to be reliable except where we have specifically called attention to doubts. We do not, however, desire to eliminate any property to which the company can claim just ownership. We are not sure from the record that the Commission's engineer gave full consideration to the amount of piecemeal construction involved in the development of this plant. Without being able to do exact justice, we consider it fair to divide the differences in dispute and credit the company with the half of it and to adjust the engineer's figures in an upward direction, with the possibility of higher cost due to piecemeal construction. The summary, which will follow, will embody all readjustments and the changes here discussed. The condition per cent. found by the Commission's engineer is used. It varies but little from that of the company.

City Aerial Wire. On this item the company's appraisers and the Commission's appraiser vary but little as to cost new. The Commission's engineer finds the condition per cent. somewhat lower. On this item we accept the engineer's conclusions without change.

City Aerial Cable and Underground Cable and Conduit. The company places the cost of this property at \$28,626 as compared with the corresponding figure by the Commission's engineer of \$23,249. The company listed its overhead cable as in 91 per cent. condition and its underground cable and conduit as in 76 per cent. condition. The underground conduit was all established in 1916 or later and is almost indestructible. Fully half of the cable in that conduit is no older than the conduit. On the other hand the overhead cable will average considerably older. Much of it was in existence prior to 1916. It is more susceptible to deterioration because exposed to the elements. We cannot accept the company's judgment as to condition per cent. for these reasons. On the other hand the Commission's engineer found the overhead cable in 63 per cent. condition and the underground cable and conduit in 94 per cent.

condition. We accept the engineer's judgment. There is also dispute as to the cost and the judgment as to the labor item. After removal of the wool-ends, which have been included by us under another heading, and striking out the item of "engineering and superintendence," which will be treated separately, and giving full consideration to the testimony on the question of unit prices of labor and materials, we will use a figure somewhat higher than that used by the Commission's engineer and considerably lower than that used by the company prior to the adjustments. The figure found by us as fair, based wholly for the moment on historical reproduction cost, is \$23,900 undepreciated and \$18,571 depreciated value.

Booths and Fixtures. The Commission's engineer did not include these, having been told they belonged to the Northwestern Bell Telephone Company, which owns long distance toll properties entering the city. In response to an inquiry, the Northwestern Bell company claims to own most of the booths and instruments. We will, however, give the company the benefit of the doubt since ownership has not been established and will include this item at the company's figures.

Rural Wire. The appraisers are far apart on this section of property both as to quantities and as to proper prices to use on the same basis of computation. The company claims 100 miles of wire, which the engineer did not find on check. A subsequent check by the engineer of the company's work sheets discloses a duplication of 22 miles of wire between the city and the country plant, the city appraisal having been taken in conjunction by the Commission's engineer and a company representative. Certain other alleged errors have been checked by the Commission's engineer, making a total of 31 miles against the company. The remaining 70 miles are not accounted for.

The company used a labor cost of installing wire of \$6.65 per mile. The engineer, following the same general theory, used a figure of \$2.50 per mile. In the 1915 appraisal presented by the company the labor cost of stringing rural

wire was fully 30 per cent. lower than that used by it in this inventory. On the other hand, it is possible that the Commission's engineer did not give sufficient consideration to the labor cost of that part of the wire put in place during the high labor costs of the war-time period. Enough in doubt are we on this that we will make an addition to the Commission engineer's figures on this matter. The company places the condition per cent. on rural wire at 70; the Commission's engineer uses the figure 60. We will use 65 per cent. On the discrepancies as to quantities we resolve the doubt chiefly in favor of the Commission's engineer inasmuch as the company did not point out errors in his computation and his field notes when opportunity was afforded to do so. For rural wire, then, we adopt the figure of historical reproduction cost undepreciated \$10,500 and depreciated \$6,825.

Stores and Supplies. Basing his figures on estimated actual cost, the Commission's engineer found a present value of \$2,798. Using the cost of the inventory time and depreciating second-hand material the company arrived at a figure of \$3,300. Both of these figures are higher than the average experience of the company, as shown by its reports. We adopt the figure of \$3,000 as the value of the stores and supplies on the theory of historical cost.

Furniture and Fixtures. The evidence was clear that the Commission's engineer missed some items under this heading. He took only that shown him by the company. We are convinced that the company owned the additional property shown by it and that its inventory is substantially correct. It presented, however, only 1920 prices depreciated and did not present any estimates as to historical cost. Using ratios of cost and reproduction cost from other elements of this property where they are available, we arrive at a figure of \$1,250 undepreciated and \$950 depreciated cost, the engineer's finding of depreciated cost being \$632 and that of the company \$1,128.

SUMMARY ENGINEERING COST STUDY.

From a very careful consideration of all the evidence, as summarized in the discussion above, the Commission has arrived at the figures presented in the tabulation below as representing fairly the "bare bones" historical cost undepreciated and the same data with proper consideration of depreciation. The summary follows:

<i>Property</i>	<i>Cost</i>	
	<i>Cost New</i>	<i>Depreciated</i>
Real estate and buildings.....	\$3,850	\$3,745
Switchboards	11,364	7,320
Subscribers' stations apparatus, including wiring	26,692	17,974
City poles	6,252	4,049
Aerial city wire	2,450	1,645
Aerial city cable	10,900	6,867
Underground conduit and cable.....	13,000	11,704
Booths and fixtures	364	255
Rural poles	24,000	13,680
Rural wire	10,500	6,825
Tools and vehicles	2,000	1,200
Stores and supplies	3,000	3,000
Furniture and fixtures	1,250	950
TOTALS	\$115,622	\$79,114

This conclusion must not be confused with book cost gross and book cost net. Such book costs do not reflect donations, unrequited labor, good and bad purchases as such, or the cost of property paid for from telephone revenues and not recorded as new construction; nor does it represent a bookkeeper's record of investment. Such figures it is impossible to secure in the case before us. There are practically no accounts worthy of the name representing construction costs in the early days of this company and the records are not reliable concerning many of the later years. The figures set out above are the conclusions of the Commission from all the evidence before it as to what reasonably might be considered the cost to this company to reconstruct its property during the years in which it was built, but chiefly after 1912, if all construction had been paid for and if proper records of all costs

had been kept. Full consideration is given to those costs which could be ascertained definitely from the books and accounts, which, however, represent but a minor portion of the total plant.

The figures above are so-called "bare bones" assumed costs of this property. The courts and regulating commissions have unanimously recognized that in the construction of properties are always included other elements of costs as tangible as the prices of materials themselves. These include organization expenses, legal expenses, engineering and superintendence of construction, contingencies and losses, and interest during the construction period before the property begins to earn. The company first laid claim in inventory to \$9,529 under these various headings. This amount was increased, on advice of counsel, to \$18,377 added to the "bare bones" cost figures, and to \$28,994 to the reproduction cost figures. The basis used was 15 per cent. of the "bare bones" figures. In testimony it was brought out that the president of the company, who had used the figure of \$9,529, had not included all the general expenses, but had considered part of them in a claim for unrequited services. The Commission has for many years used a figure of 15 per cent. added to the "bare bones" assumed cost. This figure averages well with the conclusions of regulatory commissions in many other states and has the approval of the courts. No studies have ever been made, to our knowledge, involving the extent of general expenses under the so-called reproduction new methods during the period of abnormal high labor and material costs. We will use the basis heretofore followed by the Commission. These general expenses are as much a part of the cost of construction as any other expense and since they constitute labor almost exclusively they are subject to the rule of depreciation at the same rate as the property depreciates. Adding the 15 per cent. to the "bare bones" figures heretofore arrived at we have the following results:

Cost new	\$132,965
Cost depreciated	90,981

WORKING CAPITAL.

The company lays claim to \$6,400 for materials and supplies and working capital. We have included materials and supplies elsewhere. The amount of working capital necessarily must be arrived at with full consideration of the fact that collections of this company are, in the main, made in advance of service rendered and that rural collections are made, if paid promptly, during the first month of the quarter in which the service is rendered. We add \$3,000 to the materials and supplies figures, heretofore mentioned, making \$6,000 as working capital.

APPLICANT'S BOOK COST STUDY.

In its Exhibit No. 10 applicant took a starting point as of January 1, 1916, and endeavored to ascertain from the books of the company what the total cost of its property had been, allowing full accuracy for the starting figure. It found the total book cost to be \$152,654. This figure was arrived at after having made a considerable number of corrections on the distribution ledger of the company by the accountant who prepared the exhibit. We have studied this exhibit carefully and the testimony supporting it. There appear to be three chief difficulties in approving the data there presented, these being:

- (a) The accuracy of the figure used as a starting point as of January 1, 1916.
- (b) Failure to make allowances for reserves for accrued depreciation invested in additions and betterments.
- (c) The accuracy of the corrections made on the distribution ledger of the company.

We will discuss these objections in detail.

Property Cost of January 1, 1916. The company has used as a starting figure \$98,577.67 and has built up a property account from that figure. The figure was obtained from an inventory filed in 1915 with the Commission and made a part of this record in Exhibit No. 4. It was alleged at the hearing that this figure has the sanction of the Commis-

sion and, therefore, as a basis for beginning the study of book values is beyond question.

Review of the record of 1915 discloses that while the inventory was filed, there was practically no testimony introduced in support of it, nor was it in any manner tested by the Commission or by such respondents as were present at the hearing. The Commission made no finding as to value in that case either as to reproduction value or reproduction value depreciated. The order* is slightly confusing in its language, but we do not think this interpretation of it is at all strained. What the Commission said in that order is best illustrated by this language:

"Assuming that the estimates made on the present value of \$75,000 and the additional investment of \$31,000 (for consolidation and improvements) are correct, and that applicant should be permitted to earn 8 per cent. only on its present capital liabilities, plus added investment, we have the following result:

Eight per cent. for maintenance and depreciation on \$101,000.	\$8,080
Eight per cent. return on \$76,000 capital liabilities.....	6,080
	<hr/>
TOTAL	\$14,160 "

It had for years prior to 1916 been customary for the Commission to base the allowance for maintenance and depreciation on the estimated undepreciated cost of all the properties. If it had been the intention of the Commission to have considered \$98,000 as the gross cost base, it would have made allowance of 8 per cent. on \$98,000, plus \$31,000. Again, the order recites:

"Should the city council of Columbus, after the completion of the underground construction, consolidation, and improvement of the farm lines, and a twelve-months' operation of the consolidated service, question the reasonableness of the schedule herein approved, the Commission will, upon request of the council, make a physical valuation and check of its operating costs, etc., and modify the schedule as the facts may justify."

Disregarding Reserves for Accrued Depreciation. The gross cost of \$152,654, derived by the company in its book

* See Commission Leaflet No. 53, p. 1403.

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study, provides for no depreciation either in the early history of the company or in the period subsequent to January 1, 1916. We have, we think, disposed of the propriety of using \$98,577.67 as a starting figure without challenge. To support its position in not depreciating the property in any degree after January 1, 1916, in arriving at book value, the company alleges in brief that the order of 1916* did not impose upon it any obligation to set aside more than \$8,080 for maintenance and reserve for depreciation; that it has spent for maintenance and current replacements that amount of money since January 1, 1916, to date, and that since the order was not changed it was under no obligation to consider any of the surpluses earned over and above operating expenses, fixed charges and dividends as belonging to depreciation reserve. It contends that because of this fact whatever it did earn and pass to surplus was in no sense depreciation reserve. According to Exhibit No. 10 it did earn \$20,724 during this period and passed it to surplus, reinvesting the full amount in the plant. It earned in addition to that more than \$5,000 outstanding now in bills receivable above this amount in November, 1915. The company admits that depreciation did accrue in addition to the maintenance and the current replacements and lays claim (Exhibit No. 7) to \$23,379 of accrued depreciation not earned, which, it is alleged, is a present obligation which the public must meet.

The order, as a result of the 1915 hearing, did not, in fact, impose any obligation upon the company relative to its maintenance and depreciation reserves. Certain figures were set down in attempting to measure the reasonableness of the rates, but so far as the terms of the order were concerned there was no obligation to set aside any particular sum for depreciation reserve. Nor is it correct for the company to say that the order had never been modified. As a matter of fact it was modified as of date February 26, 1920,† and thereafter the company was required to set

* See Commission Leaflet No. 53, p. 1403.

† See Commission Leaflet No. 102, p. 191.

aside \$12,500 for maintenance, replacements and reserve for accrued depreciation.

Aside from the question of fact the company takes, we think, an untenable position. If it is correct relative to these surpluses it was within its power to have paid them out in dividends, or at least so much thereof as did not violate the order on Application No. 2544.* If at the same time it is correct, as alleged, that depreciation was accruing it would amount to a declaration of its right to deplete its capital in dividend payments and then to demand reimbursement of capital from the public. This is contrary to all principles of regulation of which we know. Those principles were lately written into the State Constitution of Nebraska, Article 10, Section 5. As we understand the position of the company the surplus of \$20,724, earned in the five years, represented unpaid dividends; that the stockholders had first call on these dividends, and that if the property depreciated because of rates being too low the obligation rests upon the public to make good the depreciation and, until that is done, no deductions from capital or fair value can be made representing accrued depreciation. We consider for the reasons stated above that this position is unsound. It appears to us to be contrary to the rule laid down in *Knoxville Water Company v. Knoxville*, 212 U. S. 1, and in *Louisiana Railroad Commission v. Cumberland Telephone and Telegraph Company*, 212 U. S. 414.

From another point of view the position of the company cannot be sustained. It alleges in Exhibit No. 10 that dividends unpaid amount to \$15,217. Ignoring for the moment that in computing these unpaid dividends the company has used a property basis which, as pointed out above, has no proper foundation in fact, the company has failed to take into account other surpluses actually earned and invested in property without being called new construction.

The company has laid claim to more than \$20,000 of overhead cost of construction. Such claim has been allowed substantially. It could not have been allowed if good judg-

* See Commission Leaflet No. 53, p. 1403.

ment had not warranted the conclusion that the costs were actually incurred, but in place of being paid out of capital funds were paid out from time to time in operating expenses. No proof was tendered at all as to the actual expenditures for overheads. Such proof was impossible to ascertain because never at any time separately recorded. Had the company, however, paid these overhead costs of construction out of capital funds, from which they should properly have been paid, the conclusion cannot be avoided that there would have been \$20,000 more to have been used for dividends or other corporate purposes.

Accuracy of Corrections Made. The accountant who made up the company's Exhibit No. 10 had imposed upon him what appears to us to have been an impossible task, viz.: of checking over the distribution ledger of the company and reassigning expenditures. The distribution ledger is made up of three columns: "New Construction," "Maintenance," "Operating Expenses," with explanatory catch line for each item distributed. All expenditures during the five years in question were distributed among these three accounts by the bookkeeper. The accountant's task was to rearrange the distribution after a lapse of years. We do not consider that this could be more than guess work.

What has been said here applies equally to the study made by the company, page 6 of Exhibit No. 10, where it has arrived at a net or depreciated book cost of construction in amount \$130,076.58. It has taken \$76,000 as a starting point on the theory that this was approved by the Commission in its order on Application No. 2544.* Such approval was not given. It has failed to depreciate this property after January 1, 1916; nor has any consideration been given to the loss of property brought about by consolidation in 1916 of the Bell company with applicant, a loss which is shown in the 1916 annual report in that one year to have been \$3,529.56; nor has consideration been given to the dismantling or sale of certain property. The inventory of 1915 shows a considerable amount of toll properties south of the Platte River. The testimony in

* See Commission Leaflet No. 53, p. 1403.

this case is that much of that property has been dismantled or sold and that the remainder has been converted into farm line leads. Not to eliminate this removed property results in duplication.

We are, therefore, unable to give serious consideration to the studies of book costs in arriving at a fair value of this property as against the studies of the property itself.

REPRODUCTION COST.

Applicant contends, in brief, that as a matter of law it is entitled to a return upon

"the present undepreciated value of its physical property, plus a reasonable allowance for going concern and working capital, minus the undepreciated value of the property built by use of depreciation reserve funds and not subsequently capitalized. Undepreciated present values of a public service property can only be measured by separating the property into its component parts in an inventory and applying present prices to those parts."

On such a basis it contends that the reproduction value new of the property is \$237,519, plus working capital and going value, and that the depreciated or present value is \$174,067, plus going value and working capital. On the theory that such a valuation might require rates beyond what the traffic would bear, or the service be worth, the company agrees to accept a fair value of \$150,000, without, however, waiving its right to claim a larger present value of the property. These figures of the company are subject to all the readjustments for duplications and errors which have been discussed regarding the historical cost analysis. When those readjustments have been made and no changes made regarding quantities or prices adopted by the company, we find the claim to be for undepreciated reproduction cost \$186,264, plus overhead expenditures and intangibles, and a depreciated reproduction cost of \$125,923, plus overheads and intangibles.

Even if the controlling factor in arriving at a fair value is the reproduction new, less depreciation, at prices in the fall of 1920, we would be unable to accept these figures of

the company. The testimony shows that in part the company was using its experience, including prices of materials purchased in that year and labor costs of the same time. Inasmuch as many parts of the property were purchased at other times and there was no experience of 1920, estimates on a percentage basis were used in increasing the actual or assumed cost to a figure deemed proper by applicant for reproduction. Such percentage increases at best are loose estimates. The results are also influenced by the fact that the experience of the company in 1920 was practically all in piecemeal construction, involving higher cost of labor than would have been the case had this been an extensive construction program, as is contemplated in the hypothetical reproduction of the system.

There are also some obvious inaccuracies in the computations, the most glaring example of which is in the unit used for labor and material costs in 1920 of installing telephones. The company had presented a figure of \$9.85 per instrument. (Exhibit No. 1, p. 18). The items making up this amount did not figure to that total. Testimony indicated that the item of "K.K. wire, insulators, knobs and screws" had been omitted. A witness of the company testified distinctly that the cost in 1920 would be 20 cents for each instrument. He included in that figure labor which is repeated as another item in the computation, thereby creating a duplication. However, in making its corrections the company placed the 20 cents in the column of "cost" and put a figure of 90 cents in the column of "reproduction cost." We can see no other reason for adopting the figure of 90 cents than to make the items total the presented figure, with no basis at all in fact.

Testimony was also that in the fall of 1920 the company had used a common labor cost of 60 cents per hour and that at the time of the hearing it was paying for this labor 35 cents per hour. These are merely illustrative.

We do not, however, deem it necessary to analyze in great detail the company's reproduction cost figures for reasons that we will now discuss.

BASIS FOR FAIR VALUE.

This Commission is fully persuaded that the fairest method of ascertaining the valuation of public utility properties is the investment cost without regard to the source of the funds, based on historical cost new methods, less the investment of those reserves created from revenues for the protection of property already in existence and invested by the company in additions and betterments in order that the funds may not be idle. To say otherwise is, in our opinion, ultimately to the disadvantage of the utilities themselves and presently to the serious disadvantage of the public. Much of the improvements made by public utilities are required by public authority. These improvements may be ordered in a period of high labor and materials costs, the company having no other option than to make the investment. If the theory advanced by applicant is correct, then later when prices drop substantially these investments which have been made on order of the public authorities will depreciate.

However, it is very apparent that these conclusions are not borne out by the weight of decisions of the courts and that if this Commission gives the consideration to those decisions which it is in honor bound to give it cannot stop with a conclusion on value based upon investment.

Telephone properties are permanent investments. What constitutes a conclusion as to present value of permanent investments outside of public utility properties? This is a period of readjustment and rapidly downward trending values. Stocks of goods, on which the turnover is rapid, can readily be priced at the moment, but who is to say what is the present value of such permanent investments as real estate? Farm lands have decreased in value very materially where sales have been made. The end is apparently not yet. The prudent buyer, faced with the prospect of still further shrinkage in values, is hardly likely to offer an appraised present value for farm lands as an investment because he must anticipate his inability to again realize that price in sale.

The theory of fair value, based on reproduction prices at the given moment, is impracticable because unstable. In the instance of this company, prices were fixed on 1920 prices of labor and materials as experienced by the company and estimates where experience was not had. More than a year has elapsed since those inventories were made. Very substantial readjustments in prices in a downward direction have taken place since that time. A finding now of value based on prices of 1920 would be incorrect. It would appear that in order to be fair to the public the inventory must be again priced if reproduction new at this time is to be the sole measure of the value of the physical units and possibly six months from now it would be again an unfair value. These are practical considerations. It is physically impossible for the regulating body to keep abreast of rapidly fluctuating prices of materials and labor in arriving at a rate base for all the utilities which are under the supervision of the Nebraska Commission. More stability in the measure of value must be found, both in the interest of the company and of the public.

But is applicant correct in its contention that the weight of authorities requires that reproduction new on the basis of labor and materials costs in any given short period is required by the courts as the controlling consideration in reaching fair value?

In 1897 the Supreme Court of California in *San Diego Water Company v. San Diego*, 50 Pac. 633, rejected reproduction new as too speculative a hypothesis and accepted the book costs as the fair measure of the property there under consideration, and argued that there was nothing in the evidence to indicate that it did not fairly reflect the value of the property. The next year the Supreme Court of the United States in *San Diego Land and Town Company v. National City*, 174 U. S. 739, rejected the company's contention of investment cost where the record showed a considerable dispute as to whether such book records represented prudent investment. The company contended that in considering the fairness of its rates a fair return on the

cost, the protection of its property by depreciation reserve, interest on obligations, and other fixed charges must be given consideration. The court said:

"Undoubtedly, all these matters ought to be taken into consideration, and such weight be given them, when rates are being fixed, as under all the circumstances will be just to the company and to the public. The basis of calculation suggested by the appellant is, however, defective in not requiring the real value of the property and the fair value in themselves of the services rendered to be taken into consideration. What the company is entitled to demand, in order that it may have just compensation, is a fair return upon the reasonable value of the property at the time it is being used for the public."

The case is frequently quoted by advocates of the reproduction new theory. Usually, however, only the last sentence is quoted. In *Covington and Lexington Turnpike Road Company v. Sandford*, 164 U. S. 578, the court said:

"The utmost that any corporation, operating a public highway, can rightfully demand at the hands of the legislature * * * is that it receive what, under all the circumstances, is such compensation for the use of its property as will be just both to it and to the public."

In 1906 the United States Supreme Court in *Louisiana Railroad Commission v. Cumberland Telephone and Telegraph Company*, 212 U. S. 414, reversed the court below in granting an injunction for the reason that the case had been determined upon book investment valuation without proper consideration to there being in that investment the use of depreciation reserve funds collected from the public for the protection of property existing theretofore. No objection was made by the high court to the investment basis of valuation except as stated. In *Knoxville Water Company v. Knoxville*, 212 U. S. 1, decided by the Supreme Court in 1908, the valuation was presented on the reproduction basis and this was held proper in the court below. The method was not disturbed by the Supreme Court, which used this language:

"The cost of reproduction is one way of ascertaining the present value of a plant like that of a water company, but that test would lead to obviously incorrect results if the cost of reproduction is not diminished by the depreciation which has come from age and use."

In the same year the Supreme Court decided *Willcox et al. v. Consolidated Gas Company*, 212 U. S. 19. There the cost of reproduction was used by the court below in arriving at the fair value and the Supreme Court said in this connection:

"And we concur with the court below in holding that the value of the property is to be determined as of the time when inquiry is made regarding the rates. If the property, which legally enters into consideration of the question of rates, has increased in value since it was acquired, the company is entitled to the benefit of such increase. *This is, at any rate, the general rule.* We do not say there may not possibly be an exception to it, where the property may have increased so enormously in value as to render a rate permitting a reasonable return upon such increased value unjust to the public. How such facts should be treated is not a question now before us, as this case does not present it. We refer to the matter only for the purpose of stating that the decision herein does not prevent an inquiry into the question when, if ever, it should be necessarily presented." (*Italics are ours.*)

The supreme court of West Virginia in 1910 in *Coal and Coke Railway Company v. Conley et al.*, 67 S. E. 613, declared for actual investment in the particular case, but pointed out, however, that the plant might have been improvidently built, or unfair contractor's profits had been secured, and said that such circumstances would alter the case, citing *Smyth v. Ames*, 169 U. S. 466; *Covington and Lexington Turnpike Road Company v. Sandford*, 164 U. S. 578; *Stanislaus County v. San Joaquin and King's River Canal and Irrigation Company*, 192 U. S. 201; *Spring Valley Water Works v. Schottler, et al.*, 110 U. S. 347. The court reached the conclusion that

"The result of these and other decisions is that almost every case must be dealt with in the light of its own peculiar facts and circumstances."

And this court took investment as the fairest measure. One of the most famous of the valuation cases is *Simpson et al. v. Shepard (Minnesota Rate Cases)*, 230 U. S. 352, decided by the Supreme Court in October, 1912. In that case the valuation of the railroads was presented on the reproduction new theory, which was accepted by the master and

approved by the Federal Circuit Court. It involved certain abnormal values for lands as compared with the investment in lands or fair value of adjacent lands. There was also involved the right of the company to claim properties to which it held title but which were donated by the public. The court did not disturb the reproduction method except where its hypothetical consideration resulted in abnormal values. A comparison of the findings of the master with the book investments of the carriers indicates that the chief increases allowed by the master were in the value of lands and in the overheads, which, although presumably incurred, had been paid in large measure from operating revenues and had not appeared in the investment accounts. The court rejected reproduction where it resulted in the abnormal values but sustained the master in giving to the company the property to which it had title but which came from donations from the public and others.

It appears to us significant, however, that after quoting from *San Diego Land and Town Company v. Jasper and Willcox et al. v. Consolidated Gas Company, supra*, that the company was entitled to demand just compensation in a fair return upon the reasonable value of the property at the time it is being used for the public, the court continued:

"The ascertainment of that value is not controlled by artificial rules. It is not a matter of formulae, but there must be a reasonable judgment, having its basis in a proper consideration of all relevant facts."

And then the court quoted approvingly from *Smyth v. Ames*, 169 U. S. 466, that to ascertain that value a considerable number of factors must be considered, among them being

"the present as compared with the original cost of construction."

As to whether Justice Hughes, in his conclusions in the *Minnesota Rate Cases*, meant to broadly approve reproduction new instead of approving it in the light of all the circumstances of the case before him, it appears to us to be

proper to quote from his findings as referee in the case of *Brooklyn Borough Gas Company v. Public Service Commission*, 17 N. Y. Official Dept. Reports, 81, involving valuation and rates, wherein he said:

"While it is important to consider the cost of reproduction in determining the fair value of a plant for rate-making purposes, it cannot be said that there is a constitutional right to have the rates of a public service corporation based upon the estimated cost of the reproduction of its property at a particular time regardless of circumstances. To base rates upon a plant valuation simply representing a hypothetical cost of reproduction at a time of abnormally high prices due to exceptional conditions would be manifestly unfair to the public, and likewise to base rates upon an estimated cost of reproduction far lower than the actual *bona fide* and prudent investment because of abnormally low prices would be unfair to the company. This question of taking the hypothetical reproduction cost under normal conditions as a rate base should, of course, not be confused with the necessity of recognizing actual costs of operation even though abnormal. A public service corporation is entitled to be reasonably compensated for its service and the actual cost of its operations must always be taken into consideration in determining whether or not it receives a fair compensation above that cost. But it is a different thing, after cost has been defrayed and the question is as to the compensation to be allowed in excess of cost, to take as the basis for a compensatory return an asserted plant value, far above the actual investment, which is reached merely by expert estimates of a cost of reproduction under abnormal conditions. This would result in allowing a public service corporation to take advantage of a public calamity by increasing its rates above what would be a liberal return not only on actual investment but upon a normal reproduction cost in the view that unless it could make an essentially exorbitant demand upon the public it would be deprived of its property without due process of law. The enforcement of the constitutional guaranty does not require the application of any artificial formula. It has constantly been pointed out that the rate base must be what is called 'the fair value of the property,' and that as to this there must be a reasonable judgment based on a proper consideration of all relevant facts. (*Smyth v. Ames*, 169 U. S. 466, 546, 547; *San Diego Land and Town Company v. National City*, 174 U. S. 739, 757; *San Diego Land and Town Company v. Jasper*, 189 U. S. 439, 446; *Willcox v. Consolidated Gas Company*, 212 U. S. 19, 41; *Minnesota Rate Cases* [*Simpson v. Shepard*], 230 U. S. 352, 434; *People ex rel. Kings County Lighting Company v. Willcox*, 210 N. Y. 479, 485, 495). As was said by the Court of Appeals in the case last cited: 'The cost of reproduction less accrued depreciation rule seems to be the one generally employed in rate cases. But it is merely a rule of convenience and must be applied with reason.'"

His conclusions were accepted by the New York courts which later considered the case. The decision in 1914 in *Des Moines Gas Company v. Des Moines*, 238 U. S. 153, is frequently referred to as supporting the basis of reproduction new as a controlling factor in finding fair value. The inventory and valuation involved in that case were made in 1911. As the case went to the Supreme Court it presented no controversy relative to the general principle of reproduction new in arriving at the value of physical properties, the controversy centering around going value and the reproduction of paving over mains where the mains had been laid prior to pavement by the city and where the company did not experience a paving cost. The high court did not discuss the reproduction principle except on those points under contention. It did not, however, disturb the method.

In considering this case we must bear in mind that there was no controversy as to the method of valuation. The cost of reproduction did not vary abnormally from historical reproduction cost as prices were fairly stable. In approving the master's report where reproduction new at the time of the inventory was accepted, except as to paving, the court below did discuss the law regarding the reproduction new principle of valuation. He said:

"All concede that the present value is the basis on which returns are to be estimated. * * * It is claimed the true value of any building, structure, or plant is that sum which it takes to reproduce it, less the depreciation of the one to be replaced. But little assistance is obtained from the authorities, although it is claimed the case of *Willcox v. Consolidated Gas Company* is in point. The opinion does not show this to be so. * * * But it is not easily understood how the Supreme Court in that great case, so ably argued, with so much involved, meant to be so understood without expressly so declaring in the opinion. No one doubts but that the cost of reproduction may in many cases be considered, and in some cases is a solution of the controversy." (199 Fed. 207.)

Applicant cites *Milwaukee v. Railroad Commission of Wisconsin, et al.*, P. U. R. 1920B, 976, in support of its contentions as to the basis of finding fair value. The Wisconsin Commission in that case said:

"One of the elements which has always been given consideration is investment prudently made. This element is unquestionably one of the more important elements and at a time of very widely fluctuated unit costs and abnormal conditions should have, as we have said in various cases, a large influence in determining the final value."

The Supreme Court of Wisconsin in *Oshkosh Water Works Company v. Railroad Commission of Wisconsin*, 161 Wis. 130, said:

"The present reasonable value of the utility determines rate as well as price. In both the original investment is a valuable aid in determining the present value of the property, but it is not controlling. It is only one of the several items to be considered in arriving at present value, whether for purchase or rate-making purposes."

It will be noted that this court used the expression "present reasonable value of the utility" in practically the same language that is used in the cases by the United States Supreme Court and then it proceeds to analyze the expression and does not do so by confining its attention to reproduction new. The Supreme Court of Illinois in 1915 in *State Public Utilities Commission ex rel. City of Springfield v. Springfield Gas and Electric Company*, 125 N. E. 891, said:

"Appellee contends that the only equitable basis for determining value for rate-making purposes is the cost of reproduction new, less depreciation. This contention cannot be sustained. The basis of all calculations as to the reasonableness of rates to be charged by a corporation maintaining a public utility under legislative sanction must be the fair value of the property being used by it for the convenience of the public, and in order to ascertain that value the original cost of construction, the amount expended in permanent improvements, the present cost of construction, the probable earning capacity of the property under the particular rates prescribed by the statute, and the sum required to meet operating expenses are all matters for consideration and are to be given such weight as may be just and right in each case."

In *City of Detroit v. Michigan Railroad Commission, et al.*, 209 Mich. 395, decided April 10, 1920, the Supreme Court of Michigan approved the Public Utility Commission's method of finding fair value by use of reproduction

methods exclusively. But to ascertain the reasons for that finding we must analyze the case. The Michigan State Telephone Company of Detroit was seeking to put into effect measured service in that city. The case was contested and involved a valuation of the properties. This valuation was taken as of December, 1915, prior to any war-time increase in unit costs. It was taken on the reproduction method and that method was approved by the Public Utility Commission. On appeal to the Circuit Court that particular portion of the conclusion of the Public Utility Commission was approved, the Circuit Court saying:

"No matter how much I am impressed with the idea that fair present value cannot be determined under the reproduction cost new less depreciation method, without considering original cost or actual investment, I cannot, in view of the holding in the case of *City and County of Denver et al. v. Denver Union Water Company*, 246 U. S. 178, condemn that method and set the order of the Commission aside for such reason. * * * Such approval there of that method bars disapproval here, even though, were this an original matter before me, I would not adopt such method. * * * I do not understand that the Supreme Court of the United States has decided against other methods but only that it has approved the reproduction cost new less depreciation method, in the case before it."

The Supreme Court, reviewing this language, said:

"We think the case cited by the learned judge was directly in point and is controlling."

It must be remembered that this case was on appeal and the Public Utility Commission would be reversed only if, under the circumstances, the method used were wrong. The citation in this case is to the *Denver Water Works Case*. We find the same situation there. The inventory taken in 1914 on a reproduction new basis, was approved by the master and by the court below. On appeal apparently the only question involved regarding this method was whether or not the value ought to be reduced for the reason that the franchise to occupy the streets had run out and that, therefore, the property was worth only junk value. The court discussed that question and found that the length of time in the future during which the property might be used

had nothing whatever to do with its value at the time of consideration. It refused to overrule the court below on this point, saying:

"What we have said establishes the propriety of estimating complainant's property on the basis of present market values as to land and reproduction cost, less depreciation, as to structures."

The case appears to have been decided with full consideration of all the circumstances surrounding it, including the fact that the inventory was taken at a time when abnormal conditions did not exist, and the court found no reason for overturning the conclusions of the master as to fair value arrived at in that manner.

Likewise the Supreme Court in *Lincoln Gas and Electric Light Company v. City of Lincoln et al.*, 250 U. S. 256, upheld the ordinance during a period when unit prices were abnormal and were known to the court to be abnormal, although the inventory and valuation presented to it through findings by the master involved only prices at the time the inventory was taken in 1911.

There are two or three cases where this line of reasoning apparently will not apply. In *Consolidated Gas Company of New York v. Newton et al.*, 267 Fed. 231, the court found flatly that present day prices in a reproduction of the property at the time of the inquiry was practically the sole measure. The master who had heard the case had repudiated this principle and had based the valuation on the investment prudently made. Both found the existing rates confiscatory and that they should be enjoined. Appeal was taken to the United States Supreme Court, which court, on March 6, 1922, handed down a decision. Justice McReynolds quoted from the opinion of the master to the effect that reasonable investment should be the basis for valuing the property and mentioned the disagreement of the court below with the master but did not pass on the question. It was not necessary inasmuch as in either instance the rate was found to be confiscatory.

In *Joplin and Pittsburg Railway Company v. Public Service Commission of Missouri et al.*, 267 Fed. 584, the

Federal District Court for Missouri found against the Missouri Commission as to its method in arriving at a fair value of the street railway properties in Joplin. This decision and the subsequent one in *St. Joseph Railway, Light, Heat and Power Company v. Public Service Commission of Missouri et al.*, 268 Fed. 267, are cited by applicant in supporting its position. It will be noted, however, that the Public Service Commission of Missouri took original cost and in many instances a five-year pre-war average in arriving at fair value, with no consideration of going value. The court said:

"It appears upon the face of the report (of the Commission) that great, if not undue, emphasis was laid upon the original cost of the property * * * at a period greatly antedating that with which this investigation must deal; nor can we say that the present period of high prices is so temporary or abnormal that it may *practically be disregarded* in arriving at the value of the complainant's properties." (Italics are ours.)

The court did not say that the sole measure or controlling measure should be reproduction new at the time, although the decision was rendered at a time when there was no indication of the reduction in general price levels that has since taken place.

In *Houston Electric Company v. Houston City of et al.*, 265 Fed. 360, decided March 13, 1920, there had been presented historical cost, trend prices and reproduction new value of the utilities properties. The court used all three in reaching its determination. Although there had yet been no sign of diminishing prices, the upward trend being still sharp, the conclusions gave greater weight to historical cost than to reproduction cost, and perhaps greatest weight to trend prices.

In *Georgia Railway and Power Company v. Railroad Commission of Georgia*, January 27, 1922, and as yet unreported, decided by three federal judges in injunction proceedings, the court denied the injunction and declared the Railroad Commission had not taken such a view of fair value as to be violative of the Fourteenth Amendment

where it had taken into consideration various elements, including original cost and reproduction new cost. The conclusion of the Georgia Commission gave greater weight to the so-called split inventory; or in other words, the actual experience more properly described as historical reproduction cost.

In the light of these decisions it seems perfectly plain that the fair value arrived at in rate cases of public utilities at this time must include careful and proper consideration of price levels now existing. These levels constitute an important element. In their consideration we must bear in mind the trend of prices in the past eighteen months. Such consideration can lead to no other conclusion than that normal prices, using the word "normal" as pre-war level, will not again be fully reached for a considerable period, if ever. There is enough stability to the fact that prices are not normal to warrant the fixing of fair value with ample consideration of present levels.

In dealing with this perplexing problem we cannot overlook the question of amount of property now existing in this case which was built under war-time price conditions, and which was given full consideration in the figures heretofore arrived at by us in "cost new" and "cost depreciated."* The company's exhibits show that during the years 1917 to June 30, 1921, the company spent for additions and betterments \$28,389 that has already been taken into the inventory at figures approximating the experienced cost. During the same time the company spent \$40,437 for maintenance and current replacements. These current replacements were made in costs of the moment, have been recognized as almost new property by the appraiser, and are included at the approximate cost figures at which they were made. Our estimate, based on our own experience with many companies, is that 35 per cent. of the total cost of maintenance and current replacements represents replacements and that during the period under consideration \$14,000 was spent in replacing units of property. Therefore, the amount of property now in the inventory,

* See page 1582.

which was put there at war-time prices, approximates \$42,400. These figures do not include general or overhead expenses, which, to date, have been met by this company as ordinary operating expenses. We conclude, therefore, that \$73,200 of the property was constructed at prices experienced in periods preceding 1917.

Under the rule of considering all relevant facts in arriving at fair value, the property constructed during the war-time period will, at some future time when prices have again approached normal, or pre-war, be found to be worth less than the price included in this inventory. It is also true that for years the major portion of the property will fairly represent values considerably in excess of cost. We take these facts into consideration in the final figure to be arrived at.

COST OF FINANCING.

Some testimony was introduced as to the expense and time incurred in financing this company, although no specific figure of cost was named. It was included by the president, Mr. Garlow, in his claim for unrequited services, totaling \$19,400. The cost of financing cannot be hypothetical but must be considered with full weight to the experience of the particular company. This company has borrowed its money on notes from local banks, involving no particular cost of financing. It has, however, been at a definite expense in selling stock. The stock outstanding amounts to \$55,000. The cost of financing was paid in operating expenses, so far as paid at all. We will include cost of financing, but will confine it to the par value of the stock.

GOING VALUE.

Applicant says the fair figure representing its going value is from 10 to 20 per cent. of the value of the physical properties. It is now settled law that the element of going value must be considered and given proper weight. Definitions of what constitutes going value vary. Applicant has fallen into the error of confusing it with good will, inasmuch as the company's president testified that the amount

of going value would increase with the net earnings. Since going value is an element in arriving at a rate which will provide a fair return it cannot be dependent upon that fair return.

One element of going value is that the plant is completed, its units working together in a coherent whole, functioning for the purposes for which the property was constructed. The value of the property as thus coordinated is greater than the value where each of the parts is considered, in a sense, unrelated to any other part. *Des Moines Gas Company v. Des Moines*, 238 U. S. 153; *Public Service Gas Company v. Board of Public Utility Commissioners, et al.*, 84 N. J. Law 463, 87 Atl. 651.

The appraisers for both the company and the Commission recognized a minimum value for each unit in making up the inventory and appraisal, which minimum was higher than the value of the unit removed from the plant and sold as salvage. For example, no pole has been listed at less than 30 per cent. condition by the Commission's engineer and approximately the same by the company, although many of the poles were recognized as being just ready to be replaced. Even assuming that in an emergency a year or two of use can be secured from such poles the 30 per cent. value placed upon them is considerably in excess of the remaining emergency use and the salvage value when removed. This extra value, recognized by the engineers, can be nothing else than a recognition of this one element of going value. In this property it amounts to thousands of dollars.

Some courts and commissions have given great importance to early losses of the business in arriving at the figure of going value. Such consideration fails to take into account what we have already pointed out, that early losses may be due entirely to the payment out of current revenues of such large construction costs as go to make up the general expenditures of construction, amounting in this case to approximately \$18,000.

There is, however, in the experience of each company a

definite cost of attaching the business to the property. There is testimony to this effect in this case, although the testimony was given in support of the claim of the president for unrequited services. In considering the extent of the cost of attaching the business we must give attention to the actual experience of the company, which includes the rule in the early days of the company that rural subscribers had to be stockholders and that to secure service they must buy stock. This rule acted as a sales agency in an inexpensive manner.

With full and, we believe, proper consideration of all the elements which have been discussed in this opinion, we arrive at a fair value of applicant's property as of date June 30, 1921, of \$117,000. The property for the last half of 1921 is not included because the company has not yet reported the additions and betterments made during that period.

Under the rule laid down in *Smyth v. Ames*, and repeatedly approved by the court in subsequent decisions, we have had to take into account, in arriving at this conclusion, the capital invested. In more recent decisions this factor plays a very minor part. At the time of the taking of this inventory the stock outstanding amounted to \$54,875 and the notes payable to \$24,942. These are interest-bearing or dividend-bearing obligations. We thus find the total amount of securities in capital outstanding, as of date of the inventory, \$79,817. This represents the cash investments in this company, but in view of all the circumstances surrounding the construction of the property it does not bulk large in importance in arriving at the fair value.

The respondents urged that there should be subtracted from fair value the discount at which certain stock was sold in the organization period of the company at a 50 per cent. discount. Our conclusion in the paragraph above answers this contention.

Applicant has urged the consideration of allowance for certain unrequited services, performed by the president and others, in amount \$19,400. We do not see how in law such

obligation against the company exists. We have further pointed out that practically all the so-called unrequited services fall within the limits of the valuation and have been given full consideration.

REVENUES.

In its initial petition applicant urged the necessity of annual revenues of \$55,566 as against \$37,190, now a maximum possibility. In its amended application the necessities were reduced to \$53,105. Respondents urged that no consideration should be given to increases until the service is in proper state of efficiency. The evidence in this case and the preceding one does not indicate unusually low state of service, nor unusual dissatisfaction on the part of patrons except as to the application of certain rules, which were corrected in a preceding order. Respondents also urged that this is not the proper time for rate increases when prices are being substantially reduced and the country is in a period of depression. This argument has been rejected by every court within our knowledge to which it has been presented to last year. It must also be borne in mind that applicant is now furnishing service on the rates made effective April 1, 1916,* before increased costs of operation had been encountered.

It is true that on March 1, 1920,† higher rates for this applicant were made effective by the Commission, which would have produced \$3,750 per annum additional revenue. By action on the part of applicant this additional revenue was not collected. The patrons were in nowise to blame for this and we are not at all sure that applicant can be heard to complain about financial difficulties resulting from its election not to collect the higher authorized rates for the past two years.

Applicant's estimate as to the extent of present revenues is incorrect by reason of the erroneous record of the number of subscribers' stations. As a matter of fact the maxi-

* See Commission Leaflet No. 53, p. 1403.

† See Commission Leaflet No. 102, p. 191.

mun revenues appear to be about \$1,600 per annum less than stated by applicant. Total revenues in 1920 were \$35,642 and in 1921 (based on ten months' experience) \$35,670. Applicant's auditor estimated that without change in rates the revenues for 1922 would approximate those of 1921, although his testimony as to toll earnings in 1921 was contradictory. On that point we accept applicant's estimate in the application, as well as the showing of toll earnings in 1919 and 1920.

On expenses we have the following comparative statement for 1920 and 1921, the later figure based on ten months' experience:

	1920	1921
Total revenues	\$35,642	\$35,670
Operating Expenses:		
Maintenance and depreciation	\$17,228	\$12,712
Traffic	9,663	8,636
Commercial	7,457	7,270
TOTAL OPERATING EXPENSES.....	34,348	28,628
Operating income	\$1,294	\$7,042
Deductions:		
Taxes	\$895	\$800
Miscellaneous	275	246
TOTAL DEDUCTIONS	1,170	1,046
Available for dividends and interest...	\$124	\$5,996

The figures for 1920 are subject to adjustment for the reason that extensive storm damage was experienced that year and the expenditures for replacements, which should have come from accrued reserves but which were charged into current expenses, were very high. In Exhibit No. 6 the company estimates the replacements necessary because of that storm as \$7,799. There is no evidence as to the actual amount expended. Based upon the 1921 normal current replacement experience we assume the excess

replacements to have been \$4,516. Hence, had this storm not been met the amount available for dividends would have been \$4,640 in 1920.

In Exhibit No. 7 the company estimates its needs for 1922 as follows:

Traffic	\$8,074 68
Commercial	7,706 88
Normal maintenance and depreciation.....	15,300 00
One-fifth the deficit in depreciation reserve.....	4,700 00
Taxes	800 25
Casualty insurance	486 51
Return, 8 per cent. on \$150,000.....	12,000 00
TOTAL	\$49,068 32

We have found generally in the last two years that 10 per cent. on historical or original cost is a sufficient set-up for normal maintenance, realized depreciation and a reserve for unrealized depreciation. The company recognizes the same figure but uses a different base. We have corrected the base to the findings, which results in a reduction in the amount to \$13,300 per annum. The experience of 1921 is \$12,710, in which, however, the set-up for unrealized depreciation is somewhat too small. The 1921 experience of traffic expense is higher than the estimate; on commercial expense it is lower. The combination of the two makes the estimate for 1922 approximate the experience of 1921. The company includes an item for casualty insurance. The testimony shows that this was paid and it must have been included in commercial expenses and in that far it is a duplication to include it again separately.

The company proposes to create a depreciation reserve of \$4,700 annually for five years to offset a failure in the past on the part of the public to pay sufficient revenues to provide this fund. Our discussions heretofore indicate our conclusion that this claim is based on a false conclusion of law and an erroneous statement of fact. The item cannot be allowed.

We must now give consideration to the rate of return which, under all the circumstances, will be fair. During

the war-time period interest rates were relatively high and this fact was recognized by the Commission by the very general allowance of an 8 per cent. return on fair value, although in many instances where no claim was made for more than outstanding obligations the rate was figured at 8 per cent. on such obligations where they were safely within the value of the property. It is a matter of common knowledge, however, that there have been sharp declines in recent months in the rates of interest. At the present time 6 per cent. bonds are selling at par, or above, even on most public utilities which are not generally looked upon with favor as investments. Seven per cent. preferred stocks are quoted in the neighborhood of par. This company pays $7\frac{1}{2}$ per cent. on certain note obligations and we understand 6 per cent. on certain others. Interest rates continue to decline, as evidenced by the advancing price of all kinds of bonds and preferred stocks.

The Commission has long held to the opinion that the rate of return which it must consider fair is that rate which will, with proper effort on the part of the utility, attract a sufficient number of investors to furnish the additional capital necessary for the utility to meet its obligations to the public in the way of additions and betterments. Obviously, then, this rate of return must take into account local as well as general conditions. We are of the opinion, and so find, that $7\frac{1}{2}$ per cent. annually on the fair value of applicant's property represents a fair return at this time.

We thus have the following estimated revenue necessities for this company for a twelve-month's period succeeding the effective date of the order:

Fund for maintenance, replacements and proper depreciation reserve, 10 per cent. on \$132,965 estimated original cost.	\$13,300
Traffic	8,636
Commercial	7,280
Taxes	800
Miscellaneous	250
Losses on bad accounts	200
Fair return, $7\frac{1}{2}$ per cent. on \$117,000.....	8,775
TOTAL REVENUE NECESSITIES.....	\$39,241

In our order dated February 26, 1920, in Application No. 4101,* we found the revenue necessities of applicant to be \$36,765, the probable revenues \$34,000 and deficit \$2,765, before the increases provided in that order. This finding was temporary in character because there was no inventory of the property and no opportunity to pass intelligently on the fair value. The revenue necessities included 8 per cent. of the outstanding obligations. We authorized rates which would yield about \$1,000 in excess of the needs on the theory that each well-managed company should earn some surplus each year in order to be guarded against unforeseen expenditures, not including storm damage, which is provided for elsewhere in this order. We still consider such a prospective margin proper and apply it to this case. The rates which will be approved in the order following this finding will provide such a margin of safety. Under the proposed scale they will produce \$40,250 which may be increased by any moderate growth of the company. At the same time the surplus may be further augmented by a reduction in costs of operation not now in sight.

It follows, therefore, that the rates which will be approved hereafter will be slightly higher than those approved in the order in Application No. 4101,* which rate applicant ignored. This further increase is due solely to the finding of fair value in this case, which had been promised at an early date subsequent to the temporary rate order* made in February, 1920.

Applicant asks to be relieved of the condition in the order in Application No. 4101,* now under suspension by order of this Commission, that it should serve monthly bills to town subscribers and quarterly bills to rural subscribers as a condition of the right to charge gross and net rates. Inasmuch as no toll bills are rendered by applicant, except to a very minor extent, we think the request may be granted with the exception that statement of toll bills where necessary shall be rendered, and the

*See Commission Leaflet No. 102, p. 191.

company shall hold itself out as ready to furnish any specific statement of accounts due from a subscriber upon written request for the specific statement. Such written request or delay in furnishing the statement shall not relieve the subscriber of the conditions of the order relating to gross and net rates.

Applicant also desires authority to charge for the cost of material and labor on extensions, involving more than the setting of one pole. This is covered in our order and a supplemental order in Resolution No. 53.* We will, however, approve a charge for poles in excess of two set on private ground in extending drops from lead to subscriber's residence.

We are unable to approve that part of the application asking for an additional charge of 50 cents per mile, per month, on leads to Richland, Monroe and Platte Center, the charge to be prorated among the subscribers. The evidence is insufficient on this point, but the question may be raised by applicant at any time in the future.

Gross rates 5 per cent. higher than the rates set forth in the order below will be approved, said 5 per cent. to be discounted for prompt payment, in accordance with the order.

ORDER.

It is, therefore, ordered by the Nebraska State Railway Commission, That the Platte County Independent Telephone Company be, and it hereby is, authorized to publish and collect, effective May 1, 1922, on account of an emergency existing, the following schedules of net rates at its exchanges at Columbus and Duncan, Nebraska:

* See Commission Leaflets No. 101, p. 1931, and No. 102, p. 232.

In re APPLICATION OF THE PLATTE CO. IND. TEL. CO. 1611
C. L. 126]

<i>Columbus:</i>	<i>Per Month</i>
One-party, business, desk.....	\$3 65
One-party, business, wall.....	3 40
Two-party, business, desk.....	3 15
Two-party, business, wall.....	2 90
Business extension, desk.....	1 00
Business extension, wall.....	75
One-party, residence, desk.....	2 15
One-party, residence, wall.....	1 90
Two-party, residence, desk.....	1 90
Two-party, residence, wall.....	1 65
Four-party, residence, desk.....	1 70
Four-party, residence, wall.....	1 45
Residence extension, desk.....	75
Residence extension, wall.....	50
Residence, metallic	1 50
Rural residence, desk, metallic.....	1 75
Rural residence, wall, metallic.....	1 60
Rural residence, wall, grounded.....	1 40
<i>Richland:</i>	
Business service	2 50
Residence service, metallic.....	1 65
Residence service, grounded.....	1 50
<i>Monroe:</i>	
Business service, metallic.....	2 50
Residence service, metallic.....	1 65
Residence service, grounded.....	1 50
<i>Platte Center:</i>	
Business service	2 50
Residence service, metallic.....	1 65
Residence service, grounded.....	1 50
<i>Duncan:</i>	
Business service, desk.....	2 50
Business service, wall.....	2 25
Business extension sets.....	75
Residence service	1 50
Rural service	1 40
Private branch exchange where company owns instruments and wiring is done by subscriber, per telephone attached, plus regular wall trunk line, rates for each trunk.....	35
Switchboard, operators' sets, current and other equipment no change in present rates.	
Extension bells	25
Switching service, per month, per station, payable semi- annually	35

For individual or two-party rural service there may be added to the rates quoted above 25 cents per quarter mile for added wire mileage, measured air line, from the nearest point of exchange limits to location of subscriber, such extra charge to be prorated if two subscribers are served.

The rates quoted above are net rates. Gross rates shall be considered as 5 per cent. higher than the net rates. Where bills for town service are paid on or before the fifteenth of the month in which the service is rendered, net rates shall be charged. For farm service payments shall be made quarterly in advance and the net rate shall be charged where bills are paid during the first month of the quarter in which the service is rendered.

It is further ordered, That the company shall set up as a fund for maintenance, replacements and reserve for accrued depreciation \$13,300 per annum, plus an amount at an equal rate on future additions and betterments, such set-up to be on a prorated monthly basis and against this fund shall be charged all proper expenses under the rules of accounting.

It is further ordered, That the company shall pay out in dividends not more than 8 per cent. (*see note*) on a fair value of \$117,000, plus a like rate on all additions and betterments after January 1, 1921, which shall have been made from the proceeds of sales of stock or from money borrowed on notes, and on no other additions and betterments.

It is further ordered, That the company shall furnish for its magneto stations all necessary batteries without additional cost to subscribers except in cases where it is clearly evident equipment has been used for other than telephone purposes.

It is further ordered, That no additional charge for disconnects for non-payment of bills shall be made other than those involved in the general order* on installation

* See Commission Leaflet No. 93, p. 1010.

NOTE: Through clerical error the payment of dividends was limited to 8 per cent. on the fair value, which does not conform to the finding of the Commission. By supplemental order issued April 22, 1922, correction was made limiting the payment of dividends to not more than 7.5 per cent. per annum on the fair value, plus a like rate on all additions and betterments after January 1, 1921.

charges until further order of this Commission; *provided*, that on the installation of drops on subscriber's premises, involving the use of more than two poles hereafter installed, the subscriber may be required to pay for such additional poles.

It is further ordered, That any surpluses which may occur by reason of this order shall be carried into a special surplus account, to be used exclusively for paying any future deficits in operating expenses, or in dividends not currently earned.

It is further ordered, That this rate shall remain in effect for one year unless sooner modified, further consideration to be given at that time; *provided*, applicant shall make quarterly reports to the Commission of receipts and expenditures on summary blanks of the standard accounting system.

Made and entered at Lincoln, Nebraska, this tenth day of April, 1922.

DISSENTING OPINION.

Cook, *Commissioner*:

I find myself compelled to disagree with my colleagues on this case. I do not think applicant has justified a fair value of \$117,000, or any other fair value. Its testimony in support of the valuation was confusing, contradictory and replete with admissions of lack of detailed information regarding the property, the inventory and the basis used in arriving at values. The supporting exhibits are filled with errors that are excusable only if those who prepared them had undertaken a task which they could not successfully accomplish. I do not think the Commission is justified on such a record in finding a fair value. I believe the proper action should have been to refuse to find a fair value until such time as applicant at another hearing should have presented proper evidence to support its claims. Until that time applicant is not, in my opinion, entitled to a return on more than its outstanding obligations.

There is evidence enough in the record of receipts and expenditures during 1920 and 1921 to justify some

increases in revenues but not more than enough, in my opinion, to warrant the rates authorized temporarily by the Commission in its order* dated February 26, 1920. I think the order should be confined to re-authorization of rates of 1920 and to a direction to the company to prepare again its showing on valuation in an intelligent and orderly manner. Moreover, operating expenses for several months past have decreased in most directions; labor is lower and more efficient; supplies cost less; interest rates are declining. These conditions require an applicant to make the records very clear before increased rates should be allowed.

April 10, 1922.

CHARLES H. FEELHAVER *et al.* v. THE HAMILTON COUNTY
FARMERS' TELEPHONE ASSOCIATION AND LINCOLN TELE-
PHONE AND TELEGRAPH COMPANY.

Formal Complaint No. 369.

Decided April 14, 1922.

**Request for Order Requiring Consolidation of Competing Companies
Dismissed — Cross-petition Asking Permission to Sever Toll
Connection Dismissed.**

FINDINGS.

The original complaint in this case was filed on March 7, 1918, but was later withdrawn and an amended petition substituted. The complaint is made by Charles H. Feelhaver and 18 other telephone subscribers at Hampton. They complain as to:

- (1) The necessity of renting duplicate telephones;
- (2) The obstruction of streets and alleys by unnecessary poles and wires, thus interfering with street improvements and public travel;
- (3) Present poor and unreliable service due to the bad state of repair of the two plants;
- (4) Absence of zone of service so defined as to best serve the needs of Hampton patrons;
- (5) Existence of duplicate systems.

* See Commission Leaflet No. 102, p. 191.

The complainants pray for better service, free service to Aurora and Bradshaw, and consolidation of the two plants under such rules and regulations as the Commission may prescribe.

The Hamilton County Farmers' Telephone Association answers by offering to make a physical connection between the two exchanges by means of trunk lines, and avers, further, that it cannot dispose of its exchange at Hampton because to do so would cripple and impair its Hamilton County service. The Lincoln Telephone and Telegraph Company denies that its service is exceedingly poor and unreliable but admits that it is not perfect and says steps are being taken to improve its plant; that service would greatly improve if there were but one instead of two systems in Hampton; that since it serves four times as many patrons at Hampton as its competitor and since most of the latter's telephones are duplicates, it would only be reasonable for the Hamilton County company to retire from the field after being properly compensated for the property it abandons, and that a suitable zone of service be established to be paid for by fair rates.

A hearing on the issues as thus presented was held on May 17 and May 27, 1918. The situation as it existed in Hampton at that time was thoroughly canvassed by the various witnesses, it developing that there is somewhat of a division in the community with reference to which telephone company should serve in that territory. Those west, northwest and southwest are largely tributary to Aurora and prefer service with the Hamilton County company, those north and east are more directly tributary to Hampton and prefer telephone service from that point. They are also desirous of an interchange with Bradshaw, the next town east. While the Hamilton County company has a switchboard in Hampton, it has less than 50 subscribers directly connected thereto, and does not own a building. The general manager of the company testified that its property in the village of Hampton is not worth to exceed \$2,000. On the other hand, the Lincoln company owns a

central office and the lot upon which it stands and serves approximately 170 patrons. It is alleged that its property in and about Hampton had a replacement value on April 30, 1918, of \$11,530.50. The complainants urged the inconvenience and excessive cost due to duplicate service and double rates. It was likewise urged by them, and admitted by both defendants, that the existence of duplicate plants resulted in a lack of development in Hampton, and that so long as the present situation exists that community cannot expect to have adequate telephone service.

Subsequent to the hearing, the Lincoln company filed an amended answer and cross-petition in which it alleged that the Hamilton County company was engaged in a campaign of solicitation of its subscribers and in the construction of parallel lines on the highways, the final result of which would be to further duplicate the telephone facilities in the territory, and that the District Court in and for Hamilton County had granted a temporary injunction restraining the said Hamilton County company from such interference; that long distance service was being furnished to the patrons of the Hamilton County company by the said Lincoln company and that such long distance service constituted one of the principal elements of value of its service, and that the said Hamilton County company was seeking by means of the service thus rendered to it to destroy the value of the property of the Lincoln company. In its prayer it asked that it be permitted to sever the toll connections between its system and the exchanges of the Hamilton County company and be released of the obligation of further furnishing such service; that the Commission prescribe a basis for consolidation of the two plants and require the Hamilton County company to sell to the Lincoln company.

Being advised of the situation at Hampton, the Commission thereupon issued an order prohibiting the Hamilton County company from constructing telephone lines for the purpose of serving subscribers of the Lincoln company and from furnishing service to such subscribers, and the

Lincoln company was prohibited from furnishing individual telephone service to any of the existing local subscribers of the Hamilton County company and the Lincoln company was further prohibited from constructing telephone lines for the purpose of furnishing service to the subscribers of the Hamilton County company. The Commission at that time expressed no opinion as to the severance of long distance connections between the companies, reserving such decision for the final disposition of the case.

Later the Hamilton County company answered by alleging that it was not soliciting the subscribers of its competitor but that it was constructing a line in response to the demand of a number of farmers north of Hampton; that the District Court injunction had been dissolved; that the Lincoln company was not complying with the order of the Commission in that it was proceeding with the reconstruction of its plant at Hampton; that its farm lines north of Hampton were in a deplorable condition and that the Lincoln company would lose nothing if the service involved were discontinued; that the ostensible complainants in this case were acting in behalf of the Lincoln company; that the whole proceeding was a part of a program of the Lincoln company to drive the Hamilton County company out of the field and secure a monopoly. It asked that the Lincoln company be perpetually enjoined from severing its toll connections between its system and the exchanges of the Hamilton County company; that the Hamilton County company be permitted to complete its proposed construction and that the Lincoln company be required to comply with the order of the Commission.

During the next few months several conferences were held participated in by complainants, representatives of the two companies and the Commission. Every effort was made by the Commission in these conferences to secure an adjustment of the matter that would result in the retirement of one of the companies from the field. At one time it appeared that such a consummation had been accomplished, but the Hamilton County company subsequently

withdrew its consent. An obstacle in the way of the purchase by the Hamilton County company lay in the form of its organization which prevented it from financing such purchase.

During the pendency of these proceedings a similar issue arose at Red Cloud and complaint was filed from there asking for the consolidation of the two competing companies at that point. *Lewis H. Blackledge et al. v. Farmers' Independent Telephone Company of Red Cloud and Lincoln Telephone and Telegraph Company.** The Commission held in its order in that case that it could not require consolidation, but it did order a connection of the two exchanges, both for local and long distance service, and prescribed certain increases in the exchange rates of both companies to cover the added cost of the interchange traffic. The order* also contained a provision imposing upon both companies the obligation of maintaining the existing relationship as to number of subscribers, should there be subsequent growth. This case was appealed to the Supreme Court. *Blackledge et al. v. Farmers' Independent Telephone Company of Red Cloud et al.,** 105 Nebr. 713. While the court did not in terms discuss the power of the Commission to order a consolidation, the effect of the language used is that it has no such power. It held, further, that we are without power to impose regulations that will result in confiscation of the property of either competitor or to seriously interfere with the individual management and control of the same. Two paragraphs of the syllabus cover these points and we quote as follows:

"Though at common law such public utilities could not be required to make physical connections of their telephone systems, the legislature or the Railway Commission may order such connections when public convenience and necessity require, provided that the company required to render the service will receive proper compensation for the additional service which it renders, and that such conditions are imposed as will

* See Commission Leaflet No. 120, p. 1357.

protect such company in its individual management and control of its own property, and that the order does not so operate as to create or allow of such discriminatory conditions as will cause injury to the company concerned.

Where the Railway Commission, as a condition of an order requiring the physical connection of two companies, directs that the two companies shall divide all new business, in such proportions that the relation in size of the one company to the other shall not change but shall be continuously maintained so long as the order of the exchange of service shall operate, the right of either company to accept as subscribers all who shall apply in the territory covered by their system is denied, and the effect of such order is to take the company's property without due process of law."

The court found that the conditions under which the Commission ordered physical connection of the two companies would result in confiscation of the Lincoln company's property and deprive both companies of the use of their property. The order of the Commission was annulled and set aside without prejudice to the rights of any of the parties to further proceedings before the Commission for the purpose of arriving at some reasonable regulation for the exchange of service, under such conditions, if they could be found, as would be legally justifiable and within constitutional limits. Whereupon the Lincoln company filed an application with the Commission asking that it be permitted to sever all connections with its competitors at Red Cloud. Hearing was had on this application at which all parties were represented. The Commission invited suggestions as to how the connections might be continued without damage to either company. No practical plan was forthcoming. An order was, therefore, issued authorizing the Lincoln company to disconnect its lines from the switchboard of the Farmers company.

The issues in this case are almost identical with those raised in the Red Cloud case. It follows, of course, that the principle expressed by the court in the one is applicable in the other. We cannot, in any event, order a consolidation. Nor can we, under the circumstances as they exist in this case, require a physical connection of the two switchboards for an exchange of local service on any basis

that would not result in the ultimate impairment or confiscation of the property of one of the companies. At least such an arrangement cannot be ordered that would not make necessary a schedule of rates and charges that would be prohibitive to the patrons.

Desultory negotiations between the companies were carried on up to several months ago. In the mean time the situation has remained practically *statu quo*. The Lincoln company is not now pressing its application for a severance of toll connections, although the same is still pending. Under the circumstances it would appear advisable to dismiss the complaint and the cross-petition without prejudice to any further proceedings that may be made necessary by a change in the conditions.

ORDER.

It is, therefore, ordered, That the complaint herein be, and the same is hereby, dismissed.

It is further ordered, That the cross-petition filed by the Lincoln Telephone and Telegraph Company be, and the same is hereby, dismissed without prejudice to future proceedings.

Made and entered at Lincoln, Nebraska, this fourteenth day of April, 1922.

NEVADA.

Public Service Commission.

In re PETITION OF THE BELL TELEPHONE COMPANY OF NEVADA
AND THE MASON VALLEY TELEPHONE AND TELEGRAPH
COMPANY FOR AN ORDER APPROVING THE ACQUISITION
BY THE BELL TELEPHONE COMPANY OF CERTAIN PROPERTY
OF THE MASON VALLEY TELEPHONE AND TELEGRAPH
COMPANY.

C-807 — C. P. C.-204.

Decided March 22, 1922.

Transfer of Certificate of Public Convenience and Necessity Authorized.

OPINION.

This is a joint application by the Bell Telephone Company of Nevada and Mason Valley Telephone and Telegraph Company, for the transfer of the certificate of public convenience issued to the latter on November 17, 1920.

The matter was regularly heard and no protests were filed nor objections made at the time of the hearing.

From the evidence adduced, it appears that the public convenience will not be adversely affected by the proposed transfer, especially as the lines involved have been operated under lease by the Bell Telephone Company of Nevada almost ever since the issuance of the original certificate of public convenience and necessity.

No reason being known for denying the application, it will be granted and an appropriate order will be entered.

ORDER.

Pursuant to the above and foregoing opinion,

It is hereby ordered, That the certificate of public convenience and necessity number C. P. C.-204, issued November 17, 1920, permitting Mason Valley Telephone and Telegraph Company to construct, operate and maintain certain telephone lines in Lyon County in the State of Nevada be,

and it is hereby, transferred to Bell Telephone Company of Nevada.

It is further ordered, That from and after the date hereof the Mason Valley Telephone and Telegraph Company is relieved of all responsibility and obligation under said certificate except for acts and omissions performed or omitted before the last mentioned date.

It is further ordered, That the Bell Telephone Company of Nevada be held liable and responsible under said certificate of public convenience and necessity for all acts done or omitted from and after the date hereof.

March 22, 1922.

NEW YORK.

Public Service Commission.

In re COMPLAINTS RESPECTING TELEPHONE SERVICE FURNISHED THE PUBLIC BY SUBSCRIBERS SERVICE TELEPHONE COMPANY, INC.

Case No. 575.

Decided April 6, 1922.

Subscribers Authorized to Contract with Another Company for Long Distance Service Where the Local Company Failed to Furnish Such Service.

ORDER.

Complaints having been filed with this Commission against the Subscribers Service Telephone Company, Inc., with respect to local and toll telephone service, and the Commission having on March 23, 1922, directed such company to show cause why the Commission should not require improvements in the service being furnished, and a public hearing having been held in said matter at Albany, New York, on April 4, 1922, those named hereinbefore appearing; and

The said Subscribers Service Telephone Company, Inc., having admitted that long distance service was not now being furnished and had not been since February 28, 1922, and that said long distance service cannot be furnished until some time in the future; and that the furnishing of such long distance service at any future time is conditioned upon the payment by Subscribers Service Telephone Company, Inc., to the New York Telephone Company of moneys due the said New York Telephone Company for long distance calls by the said Subscribers Service Telephone Company, Inc.; and

Certain residents, property owners and business men of the town of Fallsburg having petitioned this Commission for permission to contract with the Monticello Telephone Company for telephone service, and such petition having

been received in evidence without objection, and all the evidence as to long distance service having been adduced, both on behalf of the Subscribers Service Telephone Company, Inc., and of the complainants herein,

It is ordered, That this Commission does hereby permit and authorize Charles Golenibe, Osiss Fleischer, Isaac Steingartz, Morris Kaufman and John Gerson, the complainants herein, and such others similarly situated in the territory now being furnished local telephone service by the Subscribers Service Telephone Company, Inc., in the town of Fallsburg, Sullivan County, to contract with the Monticello Telephone Company or any other telephone company which may be able to furnish reasonable and adequate long distance telephone service, for the furnishing of such reasonable and adequate long distance telephone service temporarily, and until the Subscribers Service Telephone Company, Inc., can submit proof to this Commission that it is able to, and will furnish, on reasonable terms and conditions, long distance telephone service in the territory served by it, which shall be reasonable and adequate, any such proposed contract to be first submitted to this Commission for approval.

April 6, 1922.

OHIO.

The Public Utilities Commission.

In re APPLICATION OF THE OIL BELT TELEPHONE COMPANY
FOR LEAVE TO ISSUE NOTES.

No. 2507.

Decided April 5, 1922.

Issue of Notes Authorized.

ORDER.

This day, it appearing to the Commission from the verified allegations in said application and the sworn statements and exhibits filed in connection therewith, and other documentary evidence submitted, that the taking of oral testimony herein is unnecessary, this matter came on for consideration upon the application of The Oil Belt Telephone Company (a corporation duly organized and existing under and by virtue of the laws of the State of Ohio), asking the consent and authority of the Commission to issue promissory notes of the total principal sum of \$10,000, to bear interest at the rate of 8 percentum per annum and to mature, serially, in the sum of \$1,000 upon the last day of each succeeding June and December, the proceeds arising from the sale thereof to be used to reimburse applicant's treasury for an equal amount of uncaptialized, capital expenditures alleged to have been made therefrom within the five years next preceding the date of the filing of the application herein.

The Commission, being fully advised in the premises, finds from the pleadings and exhibits filed herein and its independent inquiry and investigation thereupon:

That, within the five years next preceding the date of the filing of the application herein, and to the thirtieth day of March, 1922, the applicant actually expended from its treasury, for the payment and discharge of its lawful capital obligations, the sum of \$8,000, none of which was obtained or procured by the issue of stock, bonds, notes or other evidences of indebtedness;

That the additional \$2,000 so pleaded by the applicant herein was actually expended more than five years prior to the date of the filing of the application herein, and

That the issue of applicant's said promissory notes of the principal sum of \$8,000 is reasonably required and the money to be procured thereby is necessary for the reimbursement of applicant's treasury for the aforesaid uncapitalized, capital expenditures therefrom,

and is satisfied that consent and authority for the issue and disposition, by the applicant, of said promissory notes of the principal sum of \$8,000 should be granted.

It is, therefore, ordered, That said The Oil Belt Telephone Company be, and hereby it is, authorized to issue its promissory notes of the principal sum of \$8,000, to bear interest at the rate of 8 percentum, per annum, and to mature serially in the sum \$1,000 upon the last day of each succeeding June and December; such notes to be sold for the highest price obtainable but not less than the principal sum thereof.

It is further ordered, That the proceeds arising from the sale of said notes be, by the applicant, devoted to and used for the reimbursement of its treasury for the \$8,000, not procured by the issue of stock, bonds, notes or other evidences of indebtedness, actually expended therefrom, within the five years next preceding the date of the filing of the application herein, for the payment and discharge of its lawful, capital indebtedness, and for no other purpose whatsoever.

It is further ordered, That the applicant make verified report to this Commission of the issue and disposition of said notes and of the expenditure of the proceeds thereof pursuant to the terms and conditions of this order.

It is further ordered, That said application, insofar as it asks consent and authority to issue such promissory notes of the additional principal sum of \$2,000 be, and hereby it is, denied.

Dated at Columbus, Ohio, this fifth day of April, 1922.

In re THE JACKSON CENTER TELEPHONE COMPANY. 1627
C. L. 126]

In re PROPOSED INCREASED RATES OF THE JACKSON CENTER
TELEPHONE COMPANY.

Advanced Utility Rate Proceeding No. 82.

Decided April 11, 1922.

Proposed Increase in Rates Rejected Due to Insufficiency of Service.

ORDER.

The Commission having heretofore, upon the complaint and protest of certain subscribers for the service of said company, suspended the going into effect of a proposed schedule of new and increased rates, charges, tolls and rentals, filed by The Jackson Center Telephone Company to become effective April 1, 1922, and entered upon a proceeding and investigation to determine the propriety of said proposed charges, and the efficiency and adequacy of said company's service;

This day, after full hearing, due notice of the time and place of which was given to all parties in interest, this matter came on for consideration upon the pleadings and the evidence.

The Commission, being fully advised in the premises, finds:

That the facilities of said company, by reason of improper installation and or insufficient maintenance, are in a condition which will not permit of the furnishing of adequate service to its subscribers or the public;

That the operating practices of said company are wholly insufficient to provide adequate service, were the facilities in a proper and efficient state;

That the service of said company is inadequate, inefficient and cannot be obtained;

That said service can be improved by certain emergency repairs which should be completed within a period of six weeks, and the institution of a proper code of operating practices, and placed in a state of reasonable efficiency by a more thorough program of improvements, which should be begun immediately upon the completion of the aforesaid emergency repairs and completed in not to exceed four months, and

That, having due regard for the cost of furnishing its said service and the aforesaid inefficiency thereof, said company's said proposed schedule of rates and charges should be rejected without prejudice to any reffling of the same following the completion of the aforesaid permanent repairs.

It is, therefore, ordered, That said The Jackson Center Telephone Company be, and hereby it is, notified, directed and required:

Forthwith, upon the service of this order, to procure the services of a competent and reliable switchboard man (if its present repairman is unable to make such repairs) and to cause its switchboard to be thoroughly cleaned and completely repaired—such repairs to consist, primarily, of the complete restoration of the night circuit alarm; the soldering of all connections; the replacement of all broken or lost parts; the equipment of all cord pairs for double clearing out, and the restoration of the back boards—which work, this Commission hereby determines, shall be completed within a period of six weeks;

Forthwith, upon the service of this order, to procure the services of a competent and reliable lineman in addition to its present repairman; provide these employees with a proper conveyance and the necessary materials, and cause them to restore to service all lines which, after a test of the line and the telephone instrument connected thereto, are found to be out of service—which work, this Commission hereby determines, shall be completed within a period of six weeks;

Forthwith, upon the service of this order, to thoroughly renovate the room occupied by the central office equipment, and the entrance thereto, marking such entrance with a suitable sign; to establish and hereafter enforce a regulation prohibiting employees from using the switchboard as a receptacle for waste paper, wearing apparel and other articles not necessary to telephone operation; to reorganize the operating force by designating one employee to be in charge of and responsible for the conduct of the office; to receive and see that complaints of subscribers are properly recorded and referred to the proper repairman, and thereafter attended to with reasonable despatch, and to install a proper complaint department by providing the aforesaid designated employee with a supply of the following form:

“Form

Date,, 192

Line No.....Tel. No.....

Name

Address

Nature of complaint.....

.....

Reported byTime.....

Repairman's Report.

Nature of repairs.....

.....

DateTime.....

Cleared by”

C. L. 126]

printed in duplicate, the copies being of different colors, and establishing the practice of furnishing the repairman with a copy of the complaint by the person recording it, who shall retain the original; requiring the repairman to return his copy, properly filled out, when the work is completed, to the employee from whom he received it, who, in turn, shall complete the report and file, in its numerical order, the original and duplicate, and

Forthwith, upon the completion of the aforesaid emergency repairs to its outside plant, to patrol all lines, supplying poles, where same are missing, replacing all defective cross-arms and brackets, supplying each contact point with a proper insulator, to which the wires are to have substantial fastening; trimming all interfering branches of trees; pulling slack sufficiently to insure against crossing of circuits in the span, and properly transposing wires to the required intervals to eliminate, insofar as possible, cross-talk and inductive interference; and to repair, replace and adjust all mechanical parts of the subscribers' telephones which are defective or not functioning properly, and replace all dry cells that have been in use nine months unless, by inspection, they show visible signs of deterioration, when replacement shall be made regardless of length of service — which work, this Commission hereby determines, shall be completed within a period of four months from the date of this order.

It is further ordered, That said The Jackson Center Telephone Company shall report to this Commission the completion of the aforesaid emergency and permanent repair of its facilities and the inauguration of the aforesaid operating reforms.

It is further ordered, That the said proposed schedule, identified as P. U. C. O. No. 1, proffered by said The Jackson Center Telephone Company to become effective April 1, 1922, be, and hereby the same is rejected, without prejudice to a refile of said proposed schedule upon the completion of the aforesaid repairs to its facilities and improvement of its service.

Dated at Columbus, Ohio, this eleventh day of April, 1922.

In re APPLICATION OF THE CHARDON TELEPHONE COMPANY
FOR CONSENT AND APPROVAL OF THE ISSUANCE OF BONDS.

No. 2491.

Decided April 13, 1922.

Issue of Bonds Authorized.

ORDER.

This day, it appearing to the Commission from the verified allegations in said application and the sworn statements and exhibits filed in connection therewith, and other documentary evidence submitted, that the taking of oral testimony herein is unnecessary, this matter came on for consideration upon the application of The Chardon Telephone Company (a corporation duly organized and existing under and by virtue of the laws of the State of Ohio), asking the consent and authority of this Commission to issue and dispose of first mortgage, 6 per cent. bonds, dated May 1, 1922, and to mature serially, beginning May 1, 1925, of the total principal sum of \$10,000, the proceeds arising from the sale thereof to be used to reimburse applicant's treasury for uncapitalized, capital expenditures, of the alleged sum of \$3,334.61, within the five years next preceding the date of the filing of the application herein, and to provide certain additions, extensions and improvements to its facilities, now under contract or in contemplation, the cost of which is estimated at the sum of \$6,589.

The Commission, being fully advised in the premises, finds from the pleadings and exhibits filed herein and its independent inquiry and investigation thereupon:

That, within the five years next preceding the date of the filing of the application herein and to and including February 14, 1922, the applicant actually expended from its treasury for the construction, completion, extension and improvement of its facilities, the sum of \$751.72 (not \$3,334.61, as set forth in the application herein), none of which was obtained from the issue of stock, bonds, notes or other evidences of indebtedness, and not heretofore capitalized or authorized to be capitalized by order of this Commission:

That the applicant now has under contract or in contemplation, certain additions, extensions and improvements to its facilities, the cost of which has been conservatively estimated at the sum of \$6,589, and

That the issue of applicant's said first mortgage, 6 per cent. bonds of the principal sum of \$7,300 is reasonably required and the money to be procured thereby is necessary for the reimbursement of its treasury for the aforesaid uncapitalized, capital expenditures therefrom, and for the construction, completion, extension and improvement of its facilities, as aforesaid,

and is satisfied that consent and authority for the issue and disposition of applicant's said first mortgage, 6 per cent. bonds of the principal sum of \$7,300 should be granted.

It is, therefore, ordered, That said The Chardon Telephone Company be, and hereby it is, authorized to issue its first mortgage bonds, to be dated May 1, 1922, to bear interest at the rate of 6 per cent. per annum, and to mature serially beginning May 1, 1925, of the total principal sum of \$7,300, and that said bonds be sold for the highest price obtainable but not less than the principal amount thereof.

It is further ordered, That the proceeds arising from the sale of said bonds be, by the applicant, devoted to and used for the following purposes, and no others, to-wit:

(a) The reimbursement of applicant's treasury for the sum of \$751.72, not procured by the issue of stock, bonds, notes or other evidences of indebtedness, actually expended therefrom within the five years next preceding the date of the filing of the application herein and to and including the fourteenth day of February, 1922, for the provision of net additions to its plant and facilities, not heretofore capitalized or authorized to be capitalized by order of this Commission; and

(b) The payment of the cost of providing and installing the net additions, extensions and improvements to its facilities, described in Exhibit B appended to the application herein, which exhibit hereby is made a part of this order by reference, and which cost has been estimated at the sum of \$6,589.

It is further ordered, That the applicant make verified report to this Commission semi-annually, within fifteen days after the close of each calendar, semi-annual period, of the issue and disposition of said first mortgage bonds

and, in reasonable detail, the expenditure of the proceeds thereof pursuant to the terms and conditions of this order.

It is further ordered, That said application, insofar as it asks consent and authority to issue and dispose of said first mortgage bonds of the additional principal sum of \$2,700 be, and hereby the same is, denied.

Dated at Columbus, Ohio, this thirteenth day of April, 1922.

OKLAHOMA.

Corporation Commission.

**SOUTHWESTERN BELL TELEPHONE COMPANY v. TECUMSEH
TELEPHONE COMPANY.**

Cause No. 4403 — Citation No. 964.

Decided March 22, 1922.

Penalty Imposed for Failure to Comply with Commission's Order.

JOURNAL ENTRY.

On the twenty-second day of September, 1921, the Southwestern Bell Telephone Company, a public service corporation, filed its complaint in this cause against the Tecumseh Telephone Company, a public service corporation, defendant, in which it was alleged that said Tecumseh Telephone Company is a connecting company with the lines of complainant, Southwestern Bell Telephone Company, pursuant to and under an agreement entered into between said complainant and said defendant, whereby it was agreed that said defendant would make remittance to the complaining company on or before the twentieth day of each month, for all moneys due that company for interchange toll business; that the defendant has failed and refused to make remittance as called for by said contract, and that there was due at the time of the filing of the complaint, the sum of \$786.29, notwithstanding defendant had been frequently requested to pay the same; that said defendant has failed to make the reports requested by the complaining company of business transacted in the preceding month, which reports were due on June 20, 1921, July 20, 1921, and August 20, 1921; that the failure on the part of the defendant to make such payments and to prepare and forward said reports is in violation of the Commission's Order No. 912.* It is also alleged, as a part

* See Commission Leaflet No. 41, p. 1229.

of the complaint upon which the citation in this case was based, that notwithstanding complainant had made frequent written demands upon the defendant company, to furnish a bond as required by this Commission's Order No. 1668,* securing the collections received on account of interchange business, said defendant had failed and refused to make said bond and that the same had not, to the date of the filing of the complaint, been made. The Southwestern Bell Telephone Company prays that citation be issued commanding the defendant to appear and make answer to the charges contained therein, and show cause why it should not be adjudged in contempt, and such penalty assessed against it for the violation of Commission's Orders No. 1668* and 912† as the Corporation Commission might deem proper in the premises.

The cause was docketed and set for trial on December 7, 1921, at which time all parties in interest appeared and the testimony with respect to the matters and things set forth in petition of the complainant company, heard. At the conclusion of the taking of the testimony which was ample to support the allegations set forth in the complaint filed, defendant agreed in open court to promptly pay thereafter the monthly toll collections resulting from the interchange business between the two companies, and that it would in addition thereto, make reasonable monthly payments on the original amount until the entire amount due should be liquidated. Upon this agreement the Commission closed the case and allowed the defendant, Tecumseh Telephone Company, to go its way upon the understanding set forth.

It is now represented to the Commission that notwithstanding said agreement upon the part of the defendant telephone company, very little, if any, of the amount due at the time of the hearing, has been paid, and that in addition to the amount then due, said defendant has further failed, neglected and refused to pay the amounts falling

* See Commission Leaflet No. 106, p. 359.

† See Commission Leaflet No. 41, p. 1229.

C. L. 126]

due each month from that time until the present date, and that at the present time the amount now due is in excess of \$1,500.

It goes without saying that no telephone company could continue its relationship with other connecting lines upon the basis which exists in the case now before the Commission, and it was the Commission's hope at the time of the hearing and the agreement following the hearing on December 7, 1921, that it would not be necessary to impose penalties or fines upon the defendant in this case in order to secure an adjustment of its obligations to the complaining company; this for the reason that penalties and fines in such cases are not calculated to relieve the exact difficulty which we believe usually to be financial, but rather is more likely to add thereto. Be this as it may, however, the relationship and the continual extensions of credit as between the complaining company and the defendant company, cannot continue to exist upon such a basis.

The Commission, therefore, finds from the evidence taken and heard at the trial on December 7, 1921, that said defendant, Tecumseh Telephone Company, is guilty as charged in the complaint filed in this cause both as to its failure to pay the amounts due the Southwestern Bell Telephone Company on account of interchange business relationship on or before the twentieth day of the month following that in which such business is transacted as required by Order No. 912,* and as to its failure, neglect and refusal to make and enter into the bond required of such connecting companies by this Commission's Order No. 1668.†

It is, therefore, the order of the Commission, premises considered, that said Tecumseh Telephone Company be, and it is hereby, ordered, adjudged and decreed guilty of the violation of this Commission's Orders Nos. 912 and 1668,† and that a penalty in the way of a fine in the sum*

* See Commission Leaflet No. 41, p. 1229.

† See Commission Leaflet No. 106, p. 359.

of \$100 be, and it is hereby, assessed against said company for said violation; said fine and all costs of this proceeding to be paid by defendant, Tecumseh Telephone Company, within ten days from the date hereof; that an additional fine of \$10.00 per day on and after the expiration of said ten days is hereby assessed for each day thereafter during which said defendant, Tecumseh Telephone Company, shall continue to violate said Orders Nos. 912* and 1668,† or either of them, for all of which execution will issue.

Done at Oklahoma City, Oklahoma, this the twenty-second day of March, 1922.

* See Commission Leaflet No. 41, p. 1229.

† See Commission Leaflet No. 106, p. 359.

SOUTH DAKOTA.

Board of Railroad Commissioners.

In re APPLICATION OF THE FARMERS' WESTERN TELEPHONE
COMPANY FOR AUTHORITY TO INCREASE RATES.

Docket No. 4828.

Decided April 21, 1922.

**Increase in Rates Authorized — Payment of Dividends Prohibited Until
Property has been Rehabilitated.**

REPORT.

The application of the Farmers' Western Telephone Company requests permission to increase its rental rates for rural party line service from \$15.00 per year to \$18.00 per year. The hearing was held at Ethan and the company was represented by *Mr. A. H. Titze*, treasurer, and *Mr. Herman Herbst*, secretary. There was no appearance either on behalf of the stockholders or subscribers.

It appears from the record that this company is incorporated and owns and operates a rural line about 24¾ miles in length, extending out from the town of Ethan in Davidson County. Rural party line service is furnished to 20 subscribers, 12 of whom are stockholders in the company.

The fact developed at the hearing that the present rate is \$15.00 per year, per telephone; that where the rental is paid in advance, the rate is \$12.00 per year. The officers of the company stated at the hearing that it was their desire to establish a net rate of \$15.00 per year, with permission to bill the subscribers at a rate of \$18.00 per year, per telephone, from which a discount should be allowed when the rental is paid in advance.

About eight years ago the line was purchased from the Dakota Central Telephone Company for a consideration of \$500. It had been in operation approximately eight years at that time. Since the purchase of the original line, the company has replaced a considerable number of poles;

installed a number of telephones and constructed several miles of additional line.

The record shows that for six years subsequent to its purchase of the property, the policy of the company was to collect a rental rate of \$12.00 per year from its non-stockholder subscribers, and that during that period the stockholder subscribers of the company were required to pay no rental, but in lieu thereof, two small assessments were levied, one for \$4.50 and one for \$5.00. During the years 1920 and 1921, however, all subscribers have been treated alike and stockholder subscribers have been required to pay the same rental as charged all non-stockholder subscribers. In the event that all subscribers had during the early years been required to pay rental for the service received, it is quite clear that the company would have found itself in position to have paid a reasonable annual dividend to its stockholders and to have set aside a reasonable percentage of the value of the plant as a depreciation reserve, and if this policy had been pursued, the company would now find itself, at a period when its plant has become old and its replacement requirements large, with a sufficient reserve on hand to meet its replacement requirements. The cost of replacing depreciated or worn out plant is properly chargeable to depreciation reserve and should not be treated as chargeable to current maintenance expenses.

The officers of the company testified that they considered the value of the plant to be approximately \$1,050. After making comparisons with other plants, similarly situated and of approximately the same size, the board is of the opinion, and finds, that for the purpose of this case the fair value of the property is \$1,000.

The following statement is an estimate of the annual operating expenses of the company:

Maintenance and depreciation	\$120 00
Traffic expenses	76 00
General expenses	25 00
<hr/>	
TOTAL OPERATING EXPENSES.....	\$221 00
Taxes	11 70
<hr/>	
TOTAL OPERATING EXPENSES AND TAXES.....	\$232 70
Return on plant value, 7 per cent.....	70 00
<hr/>	
TOTAL	\$302 70

Under its present rates, if the subscribers pay their rental in advance, the annual revenues of the company would be \$240. Thus using the estimated annual operating expenses and taxes of the company, including a fair return upon the investment, as previously shown, it will be seen that there would be an annual operating deficit of \$62.70. In view of the fact that the stockholder subscribers had the benefit of nearly free telephone service for a considerable period, and in view of the depreciated condition of the plant, we conclude that the dividends allowed stockholders in the past were excessive, and therefore that until such time as the property has been rehabilitated and placed in efficient condition, no dividends should be declared, and no return should be paid stockholders upon their investment.

From all of the evidence, this Board is of the opinion, and finds, that the application of the Farmers' Western Telephone Company should be granted and the company permitted to establish a net rate of \$1.25 per month, or \$15.00 per year, per telephone, and that for the purpose of facilitating collections and placing the company on a better business basis, permission should be granted it to bill all of its subscribers at a rate of 25 cents per month, or \$3.00 per year, per telephone, in excess of its regularly established net rate, from which a discount of 25 cents per month, or 75 cents per quarter, should be allowed when the telephone rental is paid quarterly in advance, on or before the last day of the current quarter.

Let an order be entered accordingly.

Done in regular session this twenty-first day of April, 1922.

ORDER.

On this date the Board having completed its investigation and made and filed its report containing its findings of fact and conclusions thereon, a copy whereof is hereto annexed, hereby referred to and made a part hereof, and sufficient cause for this order appearing;

It is, therefore, ordered, That the Farmers' Western Telephone Company be, and it is hereby, authorized to establish, file and put into effect on the first day of May, 1922, and thereafter to collect a net telephone rental covering service furnished to subscribers on its rural party line not exceeding the following:

Rural party line service, per month, per telephone. \$1 25

It is further ordered, That permission be, and it is hereby, granted the said Farmers' Western Telephone Company to bill its subscribers in an amount 25 cents per month, per telephone, in excess of the net rate quoted above, from which a discount of 25 cents per month, or 75 cents per quarter, per telephone, shall be allowed where the rental is paid quarterly in advance on or before the last day of the first month of the current quarter.

It is further ordered, That the said company be, and hereby is, required to desist and refrain from declaring any dividend or paying to its stockholders any return upon investment until such time as the property has been rehabilitated and placed in proper and efficient condition and not until permission has been obtained from this Board.

April 21, 1922.

WISCONSIN.

Railroad Commission.

In re APPLICATION OF THE WESTFIELD FARMERS TELEPHONE
COMPANY FOR AUTHORITY TO ISSUE PREFERRED STOCK.

S. B.-1759.

Decided March 13, 1922.

Issue of Preferred Stock Authorized.

CERTIFICATE.

Be it remembered, that on the sixth day of March, 1922, the Westfield Farmers Telephone Company, a public service corporation, applied to the Railroad Commission of Wisconsin for authority to issue \$10,000 of preferred stock, and for that purpose filed with the Commission a statement duly signed and verified by its president and secretary, as required by Section 1753-9 of the statutes;

That it appears from said statement that the corporation desires to issue \$10,000 of its preferred stock for the purpose of securing funds with which to pay indebtedness incurred for capital expenditures and for additions and extensions to its property and plant, and all for purposes properly chargeable to capital account;

That said corporation duly and satisfactorily complied with the requirements of said statute, and the Commission, after considering said statement and the evidence before it, found and determined that the proposed issue of preferred stock is lawful and for lawful purposes, and reasonably necessary for the purposes of the corporation.

Now, therefore, the Railroad Commission of Wisconsin hereby authorizes the Westfield Farmers Telephone Company, a Wisconsin corporation, to issue preferred stock as follows:

Two hundred shares of its preferred stock of the par value of \$50.00 each, making a total issue of \$10,000.

Said preferred stock shall be issued and sold for money only and at not less than the par value thereof, and the funds derived therefrom shall be used for the purposes set forth in the second paragraph of this certificate.

Said Westfield Farmers Telephone Company shall file with the Commission verified statements showing the amount received from the sale of preferred stock herein authorized to be sold; such statements shall be filed within thirty days of the time when the unreported amount received exceeds the sum of \$2,500.

Said Westfield Farmers Telephone Company shall file with the Commission verified statements showing in detail the items to which the entire proceeds of the sale of said preferred stock have been applied; such statements shall be filed within thirty days of the time when the unreported amounts expended exceed the sum of \$2,500.

Said Westfield Farmers Telephone Company shall not issue the preferred stock herein authorized or receive any money therefor, either directly or indirectly, until this certificate shall have been recorded upon the books of the corporation.

In witness whereof, these presents have been signed and attested by the Railroad Commission of Wisconsin at its office in the Capitol in the city of Madison, Wisconsin, this thirteenth day of March, 1922.*

* On the same date, an application to issue capital stock in the amount of \$5,000 was authorized *In re Necedah Telephone Company* (S. B.-1760).

In re APPLICATION OF THE MT. HOREB TELEPHONE Co. 1643
C. L. 126]

In re APPLICATION OF THE MT. HOREB TELEPHONE COMPANY
FOR AUTHORITY TO ISSUE BONDS.

S. B.-1761.

Decided March 13, 1922.

**Authority to Issue Remaining Unsold Capital Stock Cancelled — Issue
of Bonds Authorized — Provision Made for Amortization
of Discount.**

CERTIFICATE.

Be it remembered, that on the eighth day of March, 1922, the Mt. Horeb Telephone Company, a public service corporation, applied to the Railroad Commission of Wisconsin for authority to issue \$11,000 of bonds and for that purpose filed with the Commission a statement duly signed and verified by its president and secretary, as required by section 1753-9 of the statutes;

That it appears from said statement that on January 21, 1920,* the corporation was authorized by the Railroad Commission of Wisconsin to issue \$35,000, par value, of its capital stock for the purpose of securing funds with which to purchase the property and plant of the Mt. Horeb Independent Telephone Company, and that all of this amount of stock except \$10,000, par value, has been issued by said corporation; that it now desires to issue \$11,000, par value, of its bonds for the purpose of securing funds with which to pay the balance of the purchase price of said Mt. Horeb Independent Telephone Company in lieu of the issuance of \$10,000 of stock;

That said corporation duly and satisfactorily complied with the requirements of said statute and the Commission after considering said statement and the evidence before it, found and determined that the proposed issue of \$11,000 of bonds is lawful and for lawful purposes, and reasonably necessary for the purposes of the corporation.

Now, therefore, the Railroad Commission of Wisconsin hereby cancels the authority heretofore issued by the Com-

* Noted in Commission Leaflet No. 100, p. 1580.

mission on January 21, 1920,* insofar as it relates to the \$10,000 of unsold capital stock, and in lieu thereof hereby authorizes the Mt. Horeb Telephone Company, a Wisconsin corporation, to issue \$11,000, par value, of its bonds.

Said bonds shall be issued and sold for money only and at not less than 90 per cent. of the par value thereof, and the funds derived therefrom shall be used for the same purposes for which the \$10,000 of cancelled stock was authorized to be issued.

Provided, however, that in accordance with Subsection 2 of Section 1753-5 of the Wisconsin statutes, said company shall provide for amortizing all discount on said bonds by charging to an account entitled Unamortized Debt Discount the amount of the discount actually incurred in the sale of said bonds and in each year crediting to such account and charging to an account entitled Amortization of Debt Discount such proportion of the total discount incurred on such issue as will be required to extinguish the entire discount over the term of years for which such bonds are issued; such account Amortization of Debt Discount shall be reported to the Commission in the financial report of the company as a deduction from gross income.

Said Mt. Horeb Telephone Company shall file with the Commission within thirty days after the sale of the bonds herein authorized, a verified statement showing the proceeds derived therefrom, and shall file with the Commission within thirty days after the application of the proceeds of the sale of said bonds to the purposes herein authorized, a verified statement showing in detail the items to which such proceeds have been applied.

Said Mt. Horeb Telephone Company shall not issue the bonds herein authorized or receive any money therefor, either directly or indirectly, until this certificate shall have been recorded upon the books of the corporation.

* Noted in Commission Leaflet No. 100, p. 1580.

It is further ordered, That except as herein modified the certificate of authority dated January 21, 1921, shall remain in full force and effect.

In witness whereof, these presents have been signed and attested by the Railroad Commission of Wisconsin at its office in the Capitol in the city of Madison, Wisconsin, this thirteenth day of March, 1922.

In re APPLICATION OF THE CLINTON TELEPHONE COMPANY
FOR AUTHORITY TO INCREASE RATES.

U-2623.

Decided April 1, 1922.

**Value Determined — Grade of Service Considered — Increase in Rates
Authorized.**

Applicant operating an exchange at Clinton requested authority to increase its rates.

The Commission's engineers made a valuation of the property as of November 15, 1919, and found a reproduction cost of \$34,944 and a reproduction cost less depreciation, of \$21,454. The inventory was first priced on a ten-year average price basis up to and including the year 1914, and an allowance was made to cover the excess cost of construction during the period 1915-1919. The total value of the property as shown by the books on December 31, 1921, was \$43,728.35.

The Commission found that applicant company had outstanding stock in the amount of \$25,000; that during the years 1920 and 1921 additions had been made to the plant in the amount of \$9,784.35; that the value of applicant's plant was therefore the inventory value, \$34,944, plus additions, or \$44,728.35.

The Commission further found that the total operating revenues for 1921 were \$11,449.34, and that the operating expenses, including taxes, were \$8,472.91, leaving a balance available for depreciation and return of \$2,976.43, or 7 per cent. on the book value; that a reasonable allowance or depreciation would be \$2,231.94, or slightly under 5 per cent. on the value of the property.

The Commission found that the average of the unit operating expense of thirteen companies comparable to applicant was \$13.70 per telephone; that applicant's average expense per telephone for the year 1920 was

\$15.77, and for 1921, \$15.20, or about \$2.00 above the average; that all of applicant's lines were full metallic; that the average number of subscribers per rural line was 7, and in no single instance did the number exceed 12; that the semi-selective service offered to rural subscribers restricted the number per line to 8 or less, and the number of incoming rings on any one instrument to 2; that the character of the service rendered by applicant to its rural subscribers was above the average, and that in furnishing such service, due to the extra plant which must be maintained, it was to be expected that its unit costs would be higher.

The Commission further found that the total requirements, including taxes, depreciation and return, would amount to \$14,279.68; that the application of the proposed rates to the present number of subscribers, including other operating revenues on the basis of 1921 operations, would produce revenues of \$13,783.58, or would fall short of yielding sufficient return to meet the total requirements by \$496.10; that the return under the proposed rates, after all expenses and taxes were paid and an allowance made for depreciation as above, would be 6.9 per cent. on the physical value of the property, plus the engineers' allowances for materials and supplies.

Held: That applicant should be authorized to place in effect the following net monthly rates: business, one-party \$3.00, two-party \$2.50; residence, one-party \$1.75, two-party \$1.50, four-party \$1.25; rural, eight-party selective \$2.00, twelve-party line bridged \$1.75.

OPINION AND DECISION.

The application of the Clinton Telephone Company seeking authority to increase its rates for telephone service was filed with the Commission December 14, 1921.

Hearing in the matter was held at Madison, Wisconsin, January 6, 1922, at which time the following appearances were entered: *F. M. McKinney*, manager, *I. Jacobson*, vice-president, and *J. A. Pratt* for the applicant; *Frank Stoney*, *H. F. Dallman* and *W. C. Dunn* for themselves and other subscribers, appeared in opposition.

The lawful rates of the applicant now in effect are as follows:

In re APPLICATION OF THE CLINTON TELEPHONE CO. 1647
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<i>Business:</i>	<i>Per Year</i>
One-party	\$27 00
Two-party	24 00

<i>Residence:</i>	
One-party	15 00
Two-party	12 00
Four-party	12 00

<i>Rural:</i>	
Eight-party (selective)	21 00
Party line (bridged)	18 00

The applicant alleges that these rates do not produce sufficient revenues to meet its operating expenses and to provide for adequate depreciation and a reasonable return. Permission is, therefore, asked for authority to place the following schedule of rates in effect:

<i>Business:</i>	<i>Per Year</i>
One-party	\$36 00
Two-party	30 00

<i>Residence:</i>	
One-party	21 00
Two-party	18 00
Four-party	15 00

<i>Rural:</i>	
Eight-party (selective)	24 00
Party line (bridged)	21 00

The Clinton Telephone Company operates an exchange in and about the village of Clinton. The total subscribers served on December 1, 1921, numbered 544, classified as follows:

TABLE I.

CLASSIFICATION OF SUBSCRIBERS.

CLINTON TELEPHONE COMPANY, CLINTON, WISCONSIN.

Business:

One-party	31
Two-party	16
<hr/>	
TOTAL BUSINESS	47

Residence:

One-party	198
Two-party	18
Four-party	6
<hr/>	
TOTAL RESIDENCE	222

Rural:

Eight-party (selective)	106
Party line (bridged).....	169
<hr/>	
TOTAL RURAL	275
<hr/>	
TOTAL ALL SUBSCRIBERS	544

Magneto service is furnished to both local and rural subscribers. All lines are full metallic and in no instance does the number of subscribers on a rural line exceed 12. The semi-selective service offered to rural subscribers restricts the number per line to 8 or less, and the number of incoming rings on any one instrument to 2. It would appear, therefore, that the character of the service rendered by the applicant to its rural subscribers is above the average; and insofar as the number per line is concerned, the applicant's practice fully meets the requirements of the Commission's standards of service.

PROPERTY.

The property consists of an exchange building with land, a 300-line magneto board, 106 miles of pole line, 567 miles of iron wire, 9,883 feet of various sized cables, and the necessary instruments and appurtenances to serve 544 sub-

scribers. The total book investment December 31, 1921, was \$43,728.35.

The Commission's engineers made a valuation of the property as of November 15, 1919, and found a reproduction cost of \$34,944, and a reproduction cost less depreciation, of \$21,454. The final summary of this inventory showing the division of the property as between local and rural appears in TABLE II.

TABLE II.
FINAL SUMMARY — INVENTORY NOVEMBER 15, 1919.
CLINTON TELEPHONE COMPANY.
CLINTON, WISCONSIN.

	<i>Reproduction Cost</i>		
	<i>Local</i>	<i>Rural</i>	<i>Total</i>
Land .....	.....	.....	.....
Distribution	\$7,396	\$18,458	\$25,854
Buildings and structures .....	.....	.....	.....
Exchange equipment	1,720	.....	1,720
General equipment	780	.....	780
TOTAL	\$9,896	\$18,458	\$28,354
Add 12 per cent.*	1,188	2,215	3,402
TOTAL	\$11,084	\$20,673	\$31,756
Materials and supplies	1,000	.....	1,000
Excess (war period)	393	1,795	2,188
TOTAL	\$12,477	\$22,468	\$34,944

*Addition of 12 per cent. to cover engineering, superintendence, interest during construction, contingencies, etc.

The entire inventory was first priced on a ten-year average price basis up to and including the year 1914. The excess (war period) is an allowance made to cover the excess cost of construction during the period 1915-1919. The additions to plant since the date of the inventory have been reported by the applicant as follows:

	1920	1921	Total
Land and buildings	\$5,800 73	\$2,070 63	\$7,871 36
Central office equipment .....	.....	536 84	536 84
Wire plant equipment	162 50	801 65	964 15
Sub-station equipment	143 00	175 15	318 15
General office equipment	31 58	62 27	93 85
TOTAL	\$6,137 81	\$3,646 54	\$9,784 35

The present reproduction cost of the applicant's plant then, is the inventory value of \$34,944, plus additions of \$9,784.35, or \$44,728.35.

The above sum is equivalent to an average investment of \$82.22 per telephone, which is considerably in excess of the average unit cost for plants of this size. In comparing unit costs, however, attention must be given to the character of the plant operated and to whether or not the investment includes land and buildings. In this case we have already pointed out that the company's type of rural service is better than the average. Its investment as set forth above also includes recent investment in land and buildings to the extent of \$7,871.36.

Question has been raised by those appearing in opposition to the applicant's increase, as to the wisdom of purchasing the building now being used for the central office. The claim has been made that the purchase price, together with the cost of remodeling, result in a total investment in land and buildings not warranted in an exchange of this size.

It appears that the applicant was, previous to the purchase of the building in question, obtaining central office quarters for a very moderate rental. The building, however, was not in a good condition of repair, and it was for this and other reasons unsuited for telephone central office purposes. If the conditions set forth by the application represent the facts, and they have gone unchallenged by the opposition, we do not believe that poor business judgment was shown in securing the central office building. Whether or not the costs incident to its purchase and

remodeling are reasonable in view of the size of the business is another question.

The applicant's investment in land and buildings averages \$14.45 per telephone. An analysis of the average investment of similar companies owning land and buildings for exchange purposes follows:

Badger State Telephone and Telegraph Company. Neillsville.	\$6 90
Badger Telephone Company. Oconomowoc.....	12 00
Bangor Telephone Company. Bangor.....	9 75
Reedsburg Telephone Company. Reedsburg.....	5 10
St. Croix Telephone Company. New Richmond.....	4 60
State Long Distance Telephone Company. Elkhorn.....	6 30
Theresa Union Telephone Company. Theresa.....	10 20
Union Telephone Company. Prairie du Chien.....	7 20

The unit investments in land and buildings as just set forth represent costs of construction done in pre-war times. Unit costs determined from present day construction or transactions based upon present day construction are, of course, much in excess of those represented by pre-war construction. The applicant's building investment as already mentioned is \$14.45 per telephone, while the average of the unit of the exchanges which we have analyzed is but \$7.70 per station.

This difference in unit costs is not due entirely to a difference in the costs of buildings and lands used entirely for telephone service. The applicant's building, in addition to providing quarters for its central office, provides living quarters for its manager. The quarters thus provided the manager are in lieu of cash payments for part of his salary. If due consideration is given to this fact, it is probable that the unit cost for land and buildings would not exceed the figures shown above.

It would appear, therefore, that consideration must be given to the total amount of the building investment. In figuring a rate of return, however, a lower rate will be considered than that used for that part of the plant which is strictly telephone property.

The balance sheet showing the financial condition of the applicant as of December 31, 1921, is reproduced in the following table:

TABLE III.
BALANCE SHEET — CLINTON TELEPHONE COMPANY.
CLINTON, WISCONSIN, DECEMBER 31, 1921.

<i>Assets</i>		<i>Liabilities</i>	
Property and plant..	\$43,728 35	Capital stock	\$25,000 00
Cash	105 57	Notes payable	6,650 00
Due from subscribers and agents	1,628 93	Depreciation reserve..	16,898 69
Materials and supplies	1,524 24	Accrued liabilities....	333 12
Deficit	1,992 72	Other liabilities	98 00
<hr/> TOTAL ASSETS ...		<hr/> TOTAL LIABILITIES	
\$48,979 81		\$48,979 81	

The capital stock has but recently been increased to \$25,000. Previous to January 1, 1920, the outstanding stock amounted to but \$9,500. The dividend rate, insofar as our records go, has always been 10 per cent. on \$9,500, or \$950 annually. In 1920 the company paid but 3 per cent. on its issue of \$25,000, or \$750. Assuming this same rate for 1921, there would result a deficit in the income statement of \$809.45.

Although a dividend rate of 10 per cent. has been paid up to 1920 on the stock outstanding, it does not signify that the property has earned a full return.

We have taken our engineer's valuation of November 15, 1919, and from it computed the average investments for each year from 1910 to 1921, inclusive. We find from these values of property that the dividends paid on the stock during the corresponding periods have been equivalent to the following yearly returns on the average property investment:

	<i>Per Cent.</i>		<i>Per Cent.</i>
1910.....	3.9	1916.....	3.0
1911.....	3.7	1917.....	2.9
1912.....	3.5	1918.....	2.85
1913.....	3.4	1919.....	2.80
1914.....	3.25	1920.....	1.90
1915.....	3.1	1921.....	1.70

A fair return would be about \$3,420 after applying a somewhat lower rate than usual to land and buildings on account of their use, in part for living quarters.

For depreciation we have allowed slightly under 5 per cent. and the annual charge for depreciation is \$2,231.94. The total capital charges (return and depreciation) amount to \$5,652 a year.

OPERATING EXPENSES.

We have set forth in TABLE IV. the applicant's operating statements for the past five years:

	1917	1918	1919	1920	1921
<i>Operating Revenues:</i>					
Subscribers' telephone earnings..	\$8,601 04	\$7,806 15	\$8,666 37	\$9,731 70	\$9,926 76
Commissions on long distance tolls.....	572.63	465.96	541.60	1,022.92	1,007.22
Other operating revenues.....	297.04	343.33	112.23	515.36
TOTAL OPERATING REVENUES..	\$9,470.71	\$8,615.44	\$9,321.20	\$10,754.62	\$11,449.34
<i>Operating Expenses:</i>					
Central office expense.....	\$2,409.88	\$2,537.33	\$3,595.40	\$3,933.56	\$3,290.19
Wire plant expense.....	2,456.11	840.18	1,492.05	1,196.88	369.99
Substation expense.....	1,256.67	527.91	569.62	936.71	279.53
Commercial expense.....	332.45	56.12	204.86	280.50	300.00
General expense.....	745.06	1,996.63	1,768.00	1,843.29	4,030.20
Undistributed expense.....	215.60	237.38	208.08	85.62
TOTAL ABOVE ITEMS.....	\$7,465.77	\$6,195.55	\$7,838.01	\$8,276.56	\$8,269.91
TAXES.....	221.85	222.76	231.76	300.00	203.00
TOTAL.....	\$7,687.12	\$6,418.31	\$8,069.77	\$8,576.56	\$8,472.91
Amount available for return and depreciation.....	\$1,783.59	\$2,197.13	\$1,251.43	\$2,178.06	\$2,976.43
Per cent. available for return and depreciation on average book value.....	5.4	6.6	3.7	5.9	7

The above statements would indicate that the applicant has not earned a full return on its investment during any year of the past five.

The average operating expense per telephone for the Clinton Telephone Company during the calendar year 1920 was \$15.77 and for 1921, \$15.20. This unit includes taxes but excludes depreciation. It is difficult to compare the applicant's unit expense with that of other similar companies for the reason that there are very few companies of this class that attempt to give selective service on rural lines and to limit the number of subscribers per rural line as closely as this company has done.

The following tabulation covers certain physical data of 13 companies operating with practically the same number of subscribers as the Clinton company, and the average operating expenses for the year 1920:

Name of Company	Number of Subscribers	Character of Lines		Number of Subscribers Per Rural Line (Average)	Number of Subscribers on Lines Having in Excess of 15 Per Line	Average Operating Expenses Per Subscriber
		Local	Rural			
Almond Telephone Company.....	545	Metallic.....	Metallic and grounded.....	11	82	\$12.83
Amery Electric Company.....	691	Metallic.....	Metallic and grounded.....	11	161	13.88
Augusta Light and Telephone Company.....	622	Metallic.....	Metallic and grounded.....	9	None	9.69
Colfax Telephone Company.....	527	Metallic.....	Metallic and grounded.....	12	16	17.01
Coon Valley Farmers Telephone Company.....	534	Common return.....	Grounded.....	15	195	15.21
Elroy Telephone Company.....	598	Metallic and grounded.....	Grounded.....	12	33	10.11
Farmers Inter-County Telephone Company.....	655	Metallic.....	Grounded.....	No data	No data	12.45
Farmers Union Telephone Company.....	633	Grounded.....	Grounded.....	13	88	14.35
Fennimore Telephone Company.....	612	Metallic and grounded.....	Metallic and grounded.....	17	None	13.50
Hillsboro Telephone Company.....	644	Metallic and grounded.....	Metallic and grounded.....	12	49	13.23
Lodi Telephone Company.....	543	Metallic and grounded.....	Metallic and grounded.....	11	None	14.17
Markesan Telephone Company.....	434	Metallic and grounded.....	Metallic and grounded.....	13	17	17.00
Clinton Telephone Company.....	544	Metallic.....	Metallic.....	7	None over 12 per line	15.77

The average of the unit operating expense of the 13 companies considered above is \$13.70 per telephone. It appears, therefore, that the unit expense of the Clinton company is about \$2.00 above the average, but on the other hand it will be noted that it averages but 7 subscribers to each rural line and that all of its lines are full metallic. There can be little question relative to the ability of the applicant's plant to furnish a higher grade of service than the other plants considered, and in furnishing this service, due to the extra plant which must be maintained, it would be expected that its unit costs would be higher.

Insofar as individual items of expense are concerned, we can see little or no cause for criticism. Testimony shows that operators are paid approximately the minimum wage under the Industrial Commission's rulings. The salary paid the superintendent, \$145 per month and house, is, we believe, very reasonable in view of the fact that he furnishes his automobile and pays all expenses incident to its operation while in the service of the telephone company.

There might be some occasion for complaint against the amount paid to directors for monthly meetings, provided the amount paid was any considerable part of the company's operating expenses. The payments amount to \$5.00 per director, per meeting, or to \$420 annually. This sum is equivalent to 3 per cent. of applicant's yearly requirements. If the charges for this purpose are cut to 50 per cent. of the sum now paid, the saving would amount to 39 cents per telephone, per year.

If consideration were to be given to the applicant's total requirements as set forth herein, we would have to consider the following items of cost of service:

Operating expenses	\$8,269 91
Depreciation	2,231 94
Return	3,420 84
Taxes	356 99
<hr/>	
TOTAL REQUIREMENTS	\$14,279 68

The application of the rates proposed by the company to its present number of subscribers will yield the following revenues:

<i>Business:</i>	<i>Number of Subscribers</i>	<i>Per Year</i>	<i>Total</i>
One-party	31	\$36 00	\$1,116 00
Two-party	16	30 00	480 00
<i>Residence:</i>			
One-party	198	21 00	4,158 00
Two-party	18	18 00	324 00
Four-party	6	15 00	90 00
<i>Rural:</i>			
Selective	106	24 00	2,544 00
Bridged	169	21 00	3,549 00
TOTAL	544		\$12,261 00
Other revenues on basis of 1921 operations.....			1,522 58
TOTAL ESTIMATED REVENUES			\$13,783 58

This amount is \$496.10 short of yielding a return sufficient to meet the total requirements of the property. After all expenses for taxes, depreciation and for operation and maintenance, this amounts to a return of 6.9 per cent. on the physical value of the property, plus the engineer's allowance for materials and supplies. Another way of considering the revenues arising from the proposed rates would be that they provide for no return upon the applicant's investment in building. Or, if consideration be given to a 6 per cent. return on the investment in building, no provision whatsoever is made for directors' fees for attendance at the company's monthly meetings.

The rates set forth above represent the minimum schedules authorized for Wisconsin Telephone Company exchanges in its petitions before the Commission in the past two years. The schedule authorized for the exchanges at Bayfield, Burnett Junction, Cedarburg, Corliss, Hartford, Hartland, Hortonville, Lima Center, Stanley, Saint Martins, Princeton, Peshtigo, Omro, Oconto Falls, Green Lake, Little Chute, Mayville, Mazomanie and New London, which are all magneto exchanges, was as follows:

	<i>Per Year</i>
Business, one-party	\$36 00
Business, two-party	30 00
Residence, one-party	24 00
Residence, two-party	21 00
Residence, four-party	19 80
	or
	18 00
Rural	24 00

We believe that the applicant is in a position to offer as good service as that offered at the above exchanges and as the schedule proposed is not unreasonable and will not yield a return in excess of the needs of the plant, it will be authorized.

It is, therefore, ordered, That the applicant, the Clinton Telephone Company, be, and the same hereby is, authorized to discontinue its present schedule of rates and to substitute therefor the following charges:

	<i>Per Month</i>	
<i>Business:</i>	<i>Gross</i>	<i>Net</i>
One-party	\$3 25	\$3 00
Two-party	2 75	2 50
<i>Residence:</i>		
One-party	2 00	1 75
Two-party	1 75	1 50
Four-party	1 70	1 25
<i>Rural:</i>		
Eight-party (selective)	2 25	2 00
Twelve-party (line bridged).....	2 00	1 75

All subscribers will be billed at the gross rates on the first of each month. All bills paid on or before the twentieth of the month will be discounted to the net rate. After that date the gross rate applies.

The rates set forth above may be applied to all service rendered on and after April 1, 1922.

Dated at Madison, Wisconsin, this first day of April, 1922.

In re INVESTIGATION ON MOTION OF THE COMMISSION OF THE
PROPOSED EXTENSION OF THE EASTERN WISCONSIN TELE-
PHONE COMPANY AND THE ROCKLAND TELEPHONE COM-
PANY.

U-2663.

Decided April 22, 1922.

**Controversy Over Extension of Lines Settled by Organization of New
Company.**

OPINION AND DECISION.

This matter was heard at the city of Chilton on the seventh day of April, 1922, at the time and place previously noticed. *Mr. Theodore Zahf* and *Mr. William Lerche* appeared in behalf of the Rantoul Telephone Company, which organization represents that portion of the territory of the Rockland Telephone Company involved in this hearing, and *W. F. Pinnow* and *G. A. Kraemer* appeared in behalf of the Eastern Wisconsin Telephone Company.

The Rockland Telephone Company and the Eastern Wisconsin Telephone Company had each made application to the Commission for authority to extend their lines in certain sections in the town of Rantoul and the town of Charlestown in Calumet County, Wisconsin. Pending the investigation of these applications for authority to extend their telephone lines, there were filed with the Commission petitions signed by between 25 and 30 different persons living in the territory involved in these applications for authority to extend service.

The Eastern Wisconsin Telephone Company had previously maintained, in addition to its central at Chilton and other places, a central at the village of Potter. During the year 1920 the Eastern Wisconsin Telephone Company abandoned this central and the Rockland Telephone Company, in order to serve its patrons in that portion of Calumet County, was obliged to install an exchange at that village. After the petitions above-mentioned had been filed with the Commission, a disposition among the stockholders

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and subscribers of the Rockland Telephone Company to divide the territory and the exchanges of that company arose, and during the early part of March a meeting was held at which it was definitely agreed that the territory and property of the Rockland Telephone Company should be divided and a new corporation organized known as the Rantoul Telephone Company, which should take over from the Rockland Telephone Company the exchange at the village of Potter and connect into that central the persons who theretofore had been so connected and any and all other persons who might desire connection with the central at the village of Potter. It was also arranged and agreed that the Rockland Telephone Company should be reorganized and known as the New Rockland Telephone Company, which should take over the exchange at the village of Reedsville and the lines and connections belonging to that exchange, and thus between the two new companies, to-wit the Rantoul Telephone Company and the New Rockland Telephone Company, the entire property and territory formerly belonging to and served by the Rockland Telephone Company should be divided. Testimony was introduced at this hearing showing that that division was amicably arranged and that substantially all members of the public who would be served from the two centrals mentioned, namely, Potter and Reedsville, were satisfied. This division of the territory formerly belonging to the Rockland Telephone Company is comprised in part of the territory into which the extensions of the Rockland Telephone Company and the Eastern Wisconsin Telephone Company were contemplated and for which authority to make the same was being sought.

Under date of February 16, the Rockland Telephone Company, in connection with its application for authority to extend its lines in the territory covered by its petition, wrote the Commission stating that the petitioners asking for the extension desire connection with the exchange at Potter, none of whom were asking for connection with the Reedsville exchange, and further stating that the peti-

tioners live in the territory naturally adjacent to the village of Potter, transacted substantially all of their business at that village and had use neither for the Eastern Wisconsin Telephone Company's service nor the service of the Rockland Telephone Company at its central at Reedsville.

The testimony shows that all but two or three of the persons asking for service in the territory in controversy have at one time or another indicated their desire for connection with the exchange at Potter, and the persons testifying at the hearing stated that the reasons for this connection were that the usual everyday business of these petitioners is transacted at Potter, and that there is operated in the vicinity of Potter a creamery or cheese factory that has its telephone connection with the village of Potter, and that these persons are interested in the marketing of their milk and cream at this factory and, therefore, desire direct connection with that institution.

It was agreed at the hearing between the representatives of the Eastern Wisconsin Telephone Company and the Rantoul Telephone Company that a north and south line should be drawn in the town of Rantoul which should act as a dividing line of the territories to be served by the Rantoul Telephone Company and the Eastern Wisconsin Telephone Company in the portion of the territory where there might arise some conflict of interests, and that this line should begin in the section line between sections 16 and 17 where the road running directly west from Potter crosses said section line and extends south upon that section line between sections 16 and 17, sections 20 and 21, 28 and 29, to the north boundary line of sections 32 and 33, thence east on the section line between 28 and 33 to the intersection of the section line between 33 and 34 with the north boundary line of sections 33 and 34. The territory in dispute lies along the north and south section line between 33 and 34, beginning at the point where the north and south line between said sections crosses the east and west section line on the north side of sections 33 and 34

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and extends south one-half mile, thence east along the half section line of 33 to the center of said section, thence along the highway south to the three-fourths line, thence east one-fourth, thence south one-fourth to the north line of the town of Charlestown, including one-half mile of the highway extending from the northwest corner of the southeast quarter of the southeast quarter of section 34, along the highway east to the northeast corner of the southwest quarter of the southwest quarter of section 35. From the point where said line touches the north line of the town of Charlestown the same extends along the north boundary line of the town of Charlestown, east to the residence of Julius Stecker.

The persons living along this line from the point in the highway where the north and south line between sections 33 and 34 crosses the east and west line on the north side of sections 33 and 34 as traced to the residence of Julius Stecker, are the ones concerning which this controversy arises.

Since it has been determined that the central at Potter and the territory adjacent thereto is to be served by the Rantoul Telephone Company, a new organization as above set forth, and this organization is to install a metallic circuit serving these people, it is apparent that all but one or two desire connection with the Potter exchange for the reason that the principal part of their business is transacted in that vicinity, and that if any toll charge is to be paid for telephone service outside of the usual use which telephones are put to there will be less expense to these subscribers if connected into the Potter exchange than there would be if they were connected into the Eastern Wisconsin exchange at Chilton or the exchange at Reedsville. The Eastern Wisconsin Telephone Company renders no local service in the village of Potter on the line extending through that village.

There is no duplication of lines or equipment involved in this case. It is apparent from the situation that the territory involved in this controversy naturally belongs

to the exchange at the village of Potter unless for very pronounced reasons persons living therein desire connection at Chilton. The large majority of these persons apparently do not desire the connection at Chilton but in preference desire to be connected into the Potter exchange. For these reasons the Rantoul Telephone Company, with its exchange at Potter, is authorized to extend its lines along the highways above described and to render service to all members of the public desiring the same, residing along said highways.

Dated at Madison, Wisconsin, this twenty-second day of April, 1922.

O. H. ZAHN *et al.* v. SURING TELEPHONE COMPANY AND
CARTER-WABENO TELEPHONE COMPANY.

U-2580.

Decided April 27, 1922.

**Extension of Service to Persons Residing in Territory Occupied by
Another Company Authorized.**

OPINION AND DECISION.

The above matter having been noticed for hearing at the village hall in the village of Suring, Wisconsin, on the ninth day of November, 1921, and the same having come on for hearing at that time and place upon the petition of Mr. Frank Hair and about 40 other persons, directed to the Suring Telephone Company, requesting service from said company.

The Suring Telephone Company appeared by *A. G. Foss*, secretary, and *M. Jensen* appeared for the Carter-Wabeno Telephone Company.

A large number of witnesses were examined, most of whom live in the town of Breed, Oconto County, and are not at present receiving telephone service. Some of the witnesses have been receiving service from the Carter-Wabeno Telephone Company and are obliged to use the

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toll line extending from Mountain to Suring in order to communicate with the village of Suring. The Carter-Wabeno Telephone Company maintains a toll line between the two villages of Mountain and Suring. Several miles of this toll line are carried upon the poles belonging to the Suring Telephone Company. The Carter-Wabeno Telephone Company maintains one circuit from the village of Mountain to the premises of Jonas Hamberg, who lives south of the center of the township of Breed.

All of the persons interested who appeared at the hearing, together with the persons signing the petition asking for service from the Suring Telephone Company, reside in the township of Breed. Adjoining the northern line of the township of Breed there is a small lake along the shores of which a considerable number of people living in the village of Suring have their summer cottages, and therefore for a considerable portion of the year desire direct telephone connection from those cottages to the village of Suring. None of the persons living in the village of Suring and interested in the service from Suring to the lake above referred to appeared at the hearing to testify, but on the contrary the persons appearing and those who signed the petition are farm residents living in the town of Breed, with possibly one or two persons living at the station called Breed situated near the center of the town of Breed.

The Carter-Wabeno Telephone Company is serving about 12 persons upon the circuit extending from Mountain to the premises of Jonas Hamberg above referred to, most of whom live in the town of Breed. About 12 other persons living in the town of Breed in addition to those who signed the petition and who now have no telephone connection, also desire service from the Suring Telephone Company as shown by the testimony given at the hearing.

The village of Suring has a population of about 600 and is a substantial community center, having a considerable number of business houses carrying the different lines of merchandise and supplies needed upon the farms and

appears to be an important trade center. The testimony discloses that there are between 40 and 50 persons living in the town of Breed who desire the telephone service furnished by the Suring Telephone Company, who do practically all of their business in the village of Suring, who depend upon that village for medical service, for machinery, repair work and merchandise, who market practically all of their products at that station and who ship nearly all of their stock and grain from that station.

Most of the persons appearing at the hearing testified that they had no use for the service of the Carter-Wabeno company; that they would not subscribe for this service and unless they were permitted to receive service from the Suring Telephone Company they would be obliged to do without telephone connection.

From all the testimony introduced, it appears that public convenience and necessity demands the extension of the service of the Suring Telephone Company to the persons residing in the town of Breed who may desire the same, and the Suring Telephone Company is therefore authorized to extend its service into said town and especially to extend service to the persons whose names appear upon the petition requesting such service.

It is recommended that the Suring Telephone Company and the Carter-Wabeno Telephone Company enter into agreements for the carrying of the wire necessary to render the service hereby authorized upon the poles belonging to each of these companies where the same are now installed and obviate as much as possible the investment of funds in duplicating construction.

Dated at Madison, Wisconsin, this twenty-seventh day of April, 1922.

In re APPLICATION OF THE CRAWFORD-VERNON TELEPHONE
COMPANY FOR AN INVESTIGATION AND ORDER RESPECTING
THE RATES OF CERTAIN LINES CONNECTED AT LIBERTY
POLE.

U-2660.

Decided April 27, 1922.

**Present Method of Apportioning Exchange Expenses Between Companies
Ordered Discontinued — Expenses Ordered Apportioned Accord-
ing to the Number of Subscribers of Each Company
Connected to Exchange — Toll Charges
Established.**

OPINION AND DECISION.

The Crawford-Vernon Telephone Company filed its application with the Commission February 23, 1922.

Hearing in the matter was held at Viroqua, Wisconsin, March 29, 1922, at which time the following appearances were entered: *George E. Anderson*, secretary; *Torger Berge*, president for the Crawford-Vernon Telephone Company; *C. B. Fortney*, secretary-treasurer, and Smith and Moen, attorneys, by *J. A. Moen* for the Liberty Pole Telephone Company.

The present matter involves the apportionment of the expenses of operating what is known as the Liberty Pole central.

This exchange is located in the town of Franklin and provides exchange of service for several rural lines in the territory between the villages of Viroqua and Soldiers Grove. Trunk lines connect the exchange with these villages.

The total subscribers directly connected to the Liberty Pole exchange number 210 and their distribution by companies is as follows

<i>Company</i>	<i>Line</i>	<i>Subscribers</i>
City Telephone	1	8
Falsom	1	21
Hornby	1	12
Zitzner	1	16
Pleasant Ridge	1	12
Fargo	1	28
Dach Ridge	2	43
Rising Sun	1	13
Crawford-Vernon	4	57

The Crawford-Vernon company also has 80 subscribers connected to the Soldiers Grove exchange. This group has no direct connection whatsoever with Liberty Pole, and can only obtain service through central over the toll line connecting Soldiers Grove and Liberty Pole.

The Liberty Pole Telephone Company is not incorporated. The name is simply applied to the loose organization of the various companies centering at the Liberty Pole exchange. Each line, insofar as its affairs are concerned, is a separate organization, and each company contributes to the operation and upkeep of the exchange.

In the past the expenses of the Liberty Pole exchange have been apportioned to the different companies upon the basis of the total number of subscribers of each company, irrespective of whether these subscribers were connected to the Liberty Pole exchange or not.

Upon this basis the Crawford-Vernon company has been assessed in proportion to its total number of subscribers, including those receiving direct service at the Soldiers Grove exchange.

It appears to us that such a basis of apportionment of the expenses of the Liberty Pole exchange is unfair to the Crawford-Vernon company. The expense directly assignable to the Liberty Pole exchange should be borne by the subscribers directly connected thereto, and should not include subscribers receiving exchange service through some other exchange.

The representatives of the companies present at the hearing appeared to be of the opinion that subscribers

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other than those of the companies operating the Liberty Pole exchange should pay a toll for the use of the toll lines operated by the Liberty Pole company.

We believe this to be an equitable provision. We suggest that all subscribers other than those connected with the Liberty Pole exchange pay a toll of 5 cents per call for all messages originating at Soldiers Grove or beyond and terminating at the Liberty Pole exchange. On all messages going to the Viroqua exchange or beyond, the charge for the use of the Liberty Pole exchange lines should be 10 cents.

It is evidently the wish of the companies connected at the Liberty Pole exchange to have the expense incident to the toll messages placed by their members absorbed in the yearly assessments.

Inasmuch as the above method of providing for payment for toll calls will necessitate a charge of 5 cents on all messages placed by the Crawford-Vernon company's subscribers at Soldiers Grove, we would recommend that in lieu of this charge, the Crawford-Vernon company agree to maintain the toll line between Liberty Pole and Soldiers Grove. This, then, will relieve the Liberty Pole company of any expense in connection with this line.

The total annual expenses incident to the operation of the Liberty Pole exchange would appear to be about as follows:

Operators' salaries	\$796 32
Rent	96 00
Batteries	8 00
Trunk line connection, Viroqua.....	180 00
Maintenance of central office.....	25 00
Depreciation on central office equipment.....	8 00

TOTAL \$1,113 32

On the basis of the 210 subscribers directly connected, the above estimated expense will amount to \$5.30 per subscriber.

In addition to the above costs, there are the maintenance and depreciation expenses on the trunk lines

between Liberty Pole and Viroqua. We are assuming that these items of expense on the Liberty Pole-Soldiers Grove line will be taken up by the Crawford-Vernon system in return for the free toll service between the two exchanges. Increasing the expense set forth by the expense on the Liberty Pole-Viroqua trunks and making an allowance for taxes, we have as an average cost per subscriber, \$5.85.

No return has been taken into account in the above consideration. Should a return be desired by the company, it will be necessary to increase the above charge in proportion to the return desired.

The total annual charges for the different companies on this basis would be as follows:

<i>Company</i>	<i>Number of</i>		<i>Total Annual Charge at \$5.85 Per Subscriber</i>
	<i>Directly</i>	<i>Connected</i>	
City Telephone	8		\$46 80
Falsom	21		122 85
Hornby	12		70 20
Zitzner	16		93 60
Fargo	28		163 80
Dach Ridge	43		251 55
Rising Sun	13		76 05
Pleasant Ridge	12		70 20
Crawford-Vernon	57		333 45
TOTAL			\$1,228 50

If toll service is inaugurated out of the Liberty Pole and Soldiers Grove exchanges the Liberty Pole company must make provision for the necessary records in connection with this business. Arrangements must be made with the Soldiers Grove exchange to compensate this exchange for its trouble in handling this business. We believe that a commission of 25 per cent. of the total monthly originating toll business is adequate to cover the cost of operators' salaries incident to these calls and the cost of clerks' time in billing and collecting the toll charges.

It is, therefore, ordered, That the organization known as the Liberty Pole Telephone Company and consisting of

what is known as the City Telephone Company, the Zitzner Telephone Company, the Hornby Telephone Company, the Dach Ridge Telephone Company, the Pleasant Ridge Telephone Company, the Rising Sun Telephone Company, the Fargo Telephone Company, the Falsom and Liberty Pole Telephone Company and the Crawford-Vernon Telephone Company, discontinue its present method of apportioning the expenses of operating the Liberty Pole exchange and institute the following procedure:

The total annual costs of operating the Liberty Pole exchange and the costs of operating the trunk lines connecting Liberty Pole and Viroqua and Liberty Pole and Soldiers Grove shall be apportioned to the different companies receiving exchange service at Liberty Pole according to the number of subscribers each company has directly connected to the Liberty Pole exchange.

It is further ordered, That the Liberty Pole Telephone Company as described above, be, and the same is, authorized to place in effect toll charges for all non-subscribers of the Liberty Pole exchange as follows:

Liberty Pole to Viroqua.....	5 cents
Liberty Pole to Soldiers Grove.....	5 cents
Soldiers Grove to Viroqua.....	10 cents

Except that the Crawford-Vernon company's subscribers at Soldiers Grove may elect the same free service as that enjoyed by its subscribers connected at Liberty Pole if the Crawford-Vernon company will contract to maintain the toll line from Soldiers Grove to Liberty Pole without cost to the Liberty Pole Telephone Company.

It is further ordered, That in the event the Liberty Pole Telephone Company, as described above, elects to adopt the toll charges set forth above it shall provide the Soldiers Grove exchange with the necessary tickets and other records for recording, keeping and billing toll messages, and in addition shall remit to the Soldiers Grove exchange 25 per cent. of all toll revenues collected at or through the Soldiers Grove exchange.

Dated at Madison, Wisconsin, this twenty-seventh day of April, 1922.

In re APPLICATION OF THE VIROQUA TELEPHONE COMPANY
FOR AUTHORITY TO INCREASE RATES.

U-2644.

Decided April 28, 1922.

Increase in Rates Authorized.

OPINION AND DECISION.

Application in this case was filed with the Commission on February 7, 1922. In its application the petitioner sets forth that the revenues under the present rates are inadequate to meet the operating expenses, to provide properly for depreciation, and to allow a reasonable return upon the investment. Authority is requested to discontinue the present rates and to establish increased rates. The following table shows the present and proposed rates:

	<i>Per Month</i>	
	<i>Present Net Rate</i>	<i>Proposed Net Rate</i>
<i>Business:</i>		
One-party	\$1 75	\$2 00
Two-party	1 50	1 75
Four-party	1 25	1 50
Extension	50	50
<i>Residence:</i>		
One-party	1 25	1 75
Two-party	1 15	1 25
Four-party	1 00	1 00
Extension	50	50
<i>Rural:</i>		
Twelve-party, common battery.....	1 25	1 75
Party line, magneto.....	1 00	1 50
	<i>Per Year</i>	
Switching service	\$3 00	\$5 00

Hearing in the case was held in Madison on February 21, 1922, *W. E. Lawton*, manager, *F. E. Giesen*, consulting engineer, and *J. A. Pratt*, attorney, appeared for the applicant. There were no appearances in opposition.

At the time of the hearing the applicant submitted an inventory and valuation of the property and plant, a state-

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ment of the classification of subscribers in service on December 31, 1921, and a statement of the 'operating revenues and expenses for the year ended December 31, 1921.

The inventory and valuation of the property and plant submitted by the applicant showed a reproduction cost new, exclusive of materials and supplies, of \$49,532 as of May 15, 1921. The unit prices used in the valuation, however, were based chiefly upon the average of prices during the five-year period 1915 to 1919, inclusive, during which time there was relatively only a small part of the plant constructed, and as a consequence the value found is not representative of the investment cost. The book value of the property on December 31, 1921, was \$30,058.21. A study of the company's reports to the Commission for the last twelve years leads us to believe that the additions to property have been accurately reported since 1910, but that prior to that time there were some inaccuracies and that probably about \$5,000 of construction costs were included in operating expenses, so that the actual investment cost on December 31, 1921, was approximately \$35,000. Since the first of the year, however, the company has sustained a considerable loss caused by what was undoubtedly the worst sleet storm that section of the country has ever experienced, and it is estimated that when the property is again put into first-class operating condition the investment will have been increased by from \$8,000 to \$10,000.

From a consideration of the record of the investment in the property and plant and the probable additional investment necessary to restore the plant to normal working condition, we conclude that for purposes of this case an allowance of \$6,000 for depreciation and return will be reasonable.

The following table shows the company's revenues and expenses for the year ended December 31, 1921:

Revenues:

Exchange revenues	\$12,028 55	
Toll revenues	2,095 85	
Miscellaneous revenues	1,434 77	
Non-operating income	21 05	
	<hr/>	
TOTAL REVENUES		\$15,580 42

Expenses:

Repairs of wire plant	\$1,457 92	
Repairs of equipment	519 38	
Station removals and changes.....	22 80	
Other maintenance expenses.....	914 15	
Operators' wages	3,889 95	
Other traffic expenses	1,139 37	
General office salaries	2,088 89	
Other general expenses	1,474 99	
Taxes	459 09	
	<hr/>	
TOTAL EXPENSES, BEFORE DEPRECIATION.....		11,966 54

Balance available for depreciation and return.....	\$3,613 88
--	------------

The operating expenses shown in the above table amount to approximately \$15.50 per station and from an examination of the company's records we conclude that they can not be reduced without impairing the quality of the service. It appears, therefore, that under the present rates the applicant is failing to earn a reasonable return by about \$2,386.12 per annum, and that an increase in rates to provide this additional revenue is justified.

The rates proposed by the applicant, assuming that the present number of subscribers' stations will be maintained together with the present classification and distribution, would yield an increase in annual revenues of \$3,041.60. This sum is \$655.52 in excess of the amount we find to be justified, and in our authorization we shall reduce the proposed rate for single party residence service to \$1.50 net per month, and shall eliminate the proposed increase in the switching rate to subscribers of the Harmony Telephone Company, as we believe that the present rate is adequate for the trunked switching service that the appli-

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cant furnishes this company. With these reductions we believe the proposed schedule is fair and reasonable and should be authorized.

It is, therefore, ordered, That the Viroqua Telephone Company be, and hereby is, authorized to discontinue its present schedule of rates and to substitute therefor the following rates:

	<i>Per Month</i>	
	<i>Gross Rates</i>	<i>Net Rates</i>
Business:		
One-party	\$2 25	\$2 00
Two-party	2 00	1 75
Four-party	1 75	1 50
Extensions	50	50
Residence:		
One-party	1 75	1 50
Two-party	1 50	1 25
Four-party	1 25	1 00
Extensions	50	50
Rural:		
Twelve-party, common battery.....	2 00	1 75
Twelve-party, magneto	1 75	1 50
Switching Service:		<i>Per Year</i>
For direct connected lines of not over 15 subscribers per line		\$5 00
For Harmony Telephone Company subscribers.....		3 00

Billing and Discount Rules:

Local subscribers are to be billed monthly in advance at the gross rates and to have their bills discounted 25 cents if they are paid on or before the fifteenth of the month for which they are due.

Rural subscribers are to be billed quarterly in advance at the gross rates and to have their bills discounted 75 cents if paid before or during the first month of the quarter for which they are due. Bills paid during the second month are to be discounted 50 cents, and during the third month 25 cents.

No discount may be given on any bills paid after the expiration of the discount periods as above provided. Subscribers failing to pay the gross bill within a reasonable time after the expiration of the discount periods are subject to such disconnection rule as the company may have on file with the Commission.

Rates as authorized herein may be made effective for service rendered on and after May 1, 1922.

Dated at Madison, Wisconsin, this twenty-eighth day of April, 1922.

WYOMING.

Public Service Commission.

In re APPLICATION OF THE MOUNTAIN STATES TELEPHONE
AND TELEGRAPH COMPANY FOR AUTHORITY TO INCREASE
BUSINESS RATES AT LARAMIE.

No. 222.

Decided April 14, 1922.

**Discrimination Between Cities Found—Investment in Excess of De-
mands Justified—Rates Sufficient to Justify the Investing
Public in Furnishing Funds for Speedy Development
Held Necessary—Quality of Service
Considered—Increase in Rates as
Proposed Authorized.**

FINDINGS AND ORDER.

The above-entitled case came on for hearing on the ninth day of March, 1922, at 10:00 o'clock A. M. in the court house at Laramie, Albany County, Wyoming, before Commissioner H. M. Huntington of the Public Service Commission of the State of Wyoming.

Applicants were represented by *Milton Smith*, vice-president and counsel; *R. M. Morris*, commercial engineer; *A. S. Peters*, valuation engineer; *H. W. Bellard*, chief accountant; *John F. Greenawalt*, publicity director; *C. L. Titus*, state manager, and *W. R. Hancock*, Laramie exchange manager.

The respondents were represented by *F. E. Anderson*, attorney.

A petition circulated by the applicants among the business and professional men of the city of Laramie signed by 166 users of business telephones, and agreeing to the proposed increase in rates was filed with the Commission and introduced as an exhibit at the hearing and incorporated in the record.

Protestants filed a protest signed by 20 business firms

protesting against the proposed increase. This was not, however, offered as an exhibit nor introduced in evidence. In fact, respondents had no witnesses and offered no testimony whatever.

R. M. Morris, commercial engineer, for applicants was the chief witness, and it was shown by his evidence and exhibits that the total valuation of The Mountain States Telephone and Telegraph Company's property in the State of Wyoming is \$4,000,164.14 and the operating deficit for the year of 1921 was \$53,068.89. It was also shown that the value of the Laramie plant was approximately \$300,000, and that the fixed charges, (not including commercial and traffic expense) would be 24.8 per cent. of \$300,000, or \$74,400. It was further shown by the evidence that the gross revenue accruing to the Laramie plant for the year 1921 amounted to \$40,000. The increase resulting from the proposed increase in rates is estimated to be \$3,564, making a total gross revenue for 1922 in the sum of \$43,564.

Gross revenue	\$43,564 00
Fixed charges without traffic and commercial.....	74,400 00
<hr/>	
Deficit for 1922, without traffic and commercial.....	\$30,836 00

If, as respondents contend, the State-wide theory of valuation and rates should be swept aside, and only the Laramie plant considered in fixing the rates for Laramie exchange, the applicants have established a *prima facie* case (for either theory) and are entitled to the relief prayed for.

Another point in support of this conclusion, while not conclusive in itself, nevertheless corroborates the reason for the increase prayed for, and that is the discrimination existing in rates as between the cities of Cheyenne, Casper and Sheridan of the first class, and those existing in Laramie of the second class, where, and in fact, the above four cities are, and should be, in the same class, or Group 1. This being true there is no valid reason why the rates in Laramie should be lower than the rest of

the group; on the contrary it could be argued, with reason and justice, we think, that if the rates were higher in Laramie than in the other three it could be justified on the ground of automatic equipment and improved service. There is no other telephone exchange in the United States that is superior to the Laramie exchange, and none in the west that equals it.

It is conceded by all subscribers that the service furnished at the Laramie exchange is excellent. Telephone service may be roughly divided into two different classes of service. First, as to service to existing subscribers and second, service to new subscribers. Our laws regulating utilities provide that service must be adequate, and this, of course, applies to the latter class of service, so that it is incumbent and mandatory on the part of a utility to be prepared at all times to extend service to all applicants within reason subject to the rules approved by the Commission, and, therefore, in anticipating the future demands of a community their investment in plant and facilities is in excess of what the present demand requires.

The company cannot furnish adequate service without having adequate funds with which to meet operating expenses and to pay capital a reasonable compensation for its use in the business.

With the existing and continued demand for new money in the telephone industry, this compensation to capital must be equivalent to if not in excess of the current interest rate. The people of this State not only look to this Commission to see that they do not pay an unreasonably high charge for telephone service, but they also expect the Commission to so regulate telephone companies that they have adequate service and the company will be in a position to meet the public requirements.

Service and rates are the two things that often give rise to misunderstanding on the part of the public. The former is more often the cause than the question of rates. It is most important that good service be maintained at all times. In the first place it is the fair thing to do. The

public has a right to expect and demand it, and where it is given the public is slow to complain at higher rates so long as they are fair and reasonable.

In return for good service and reasonable rates for such service, the public has a vital interest in such rates being maintained as will justify the investing public in furnishing sufficient money to guarantee speedy development.

The public is usually fair when they are appraised of the true facts regarding utilities. It is interesting and instructive to know from whence the great volume of capital comes that is invested in public utilities. It has been shown by statistics that insurance companies have invested in utilities \$300,000,000, and this indirectly represents the savings of the poorer class. Twenty-seven million depositors in the 29,000 banks in the United States have a direct interest in such utilities because of the fact that their money, in the sum of \$1,700,000,000 is invested in such securities.

The Commission having given careful consideration to all the facts, conditions, and the evidence adduced at the hearing, and being fully advised in the matter, is of the opinion that the applicants are entitled to the increase in rates requested.

It is, therefore, ordered, That The Mountain States Telephone and Telegraph Company be, and that company is hereby, authorized to publish and make effective after the thirtieth day of April, 1922, the following schedule of rates for business telephones to apply to the Laramie exchange in the city of Laramie, Albany County, Wyoming:

SCHEDULE.

	<i>Per Annum</i>
Individual line	\$72 00
Two-party line	60 00

Dated at Cheyenne, Wyoming, this fourteenth day of April, 1922.

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January — June, 1922.

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